CR02724-2023

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended

   Dec 31, 2022

2. SEC Identification Number

   31171

3. BIR Tax Identification No.

   000-168-801

4. Exact name of issuer as specified in its charter

   PETRON CORPORATION

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
   Postal Code
   1550

8. Issuer's telephone number, including area code

   (63 2) 8884-9200

9. Former name or former address, and former fiscal year, if changed since last report

   N/A

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 3A (PRF3A)	13,403,000
PREFERRED SERIES 3B (PRF3B)	6,597,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO)	7,000
PCOR SERIES C BONDS DUE 2024 (IN MIL PESO)	13,200
PCOR SERIES D BONDS DUE 2025 (IN MIL PESO)	6,800

PCOR SERIES E BONDS DUE 2025 (IN MIL PESO)	9,000
PCOR SERIES F BONDS DUE 2027 (IN MIL PESO)	9,000
TOTAL DEBT AS OF DEC. 31, 2022 (IN MIL PESO-CONSO)	244,947

11. Are any or all of registrant's securities listed on a Stock Exchange?

☑ Yes ☐ No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange-Common, and Series 3A and 3B Preferred Shares;
Philippine Dealing & Exchange Corp. - Series B, C, D, E and F Bonds

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☑ Yes ☐ No

(b) has been subject to such filing requirements for the past ninety (90) days

☑ Yes ☐ No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

As of March 31, 2023 (total of 2,513,925,294 common shares at P3.35 per share): P8,421,649,734.90

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

☐ Yes ☑ No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

N/A

(b) Any information statement filed pursuant to SRC Rule 20

N/A

(c) Any prospectus filed pursuant to SRC Rule 8.1

N/A

Petron Corporation
PCOR

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

For the fiscal year ended	Dec 31, 2022
Currency	Peso (in Millions)

Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2022	Dec 31, 2021
Current Assets	243,287	188,035
Total Assets	460,071	407,420
Current Liabilities	227,555	190,052

Total Liabilities	346,521	296,507
Retained Earnings/(Deficit)	30,357	30,232
Stockholders' Equity	113,550	110,913
Stockholders' Equity - Parent	105,167	103,588
Book Value Per Share	9.01	8.75

Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2022	Dec 31, 2021
Gross Revenue	859,176	439,330
Gross Expense	839,963	422,115
Non-Operating Income	1,982	572
Non-Operating Expense	13,094	10,490
Income/(Loss) Before Tax	8,101	7,297
Income Tax Expense	1,404	1,161
Net Income/(Loss) After Tax	6,697	6,136
Net Income/(Loss) Attributable to Parent Equity Holder	5,727	5,369
Earnings/(Loss) Per Share (Basic)	0.01	0.05
Earnings/(Loss) Per Share (Diluted)	-	-

Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2022	Dec 31, 2021
Liquidity Analysis Ratios:			
; ; Current Ratio or Working Capital Ratio	**Current Assets / Current Liabilities**	1.07	0.99
; ; Quick Ratio	**(Current Assets - Inventory - Prepayments) / Current Liabilities**	0.53	0.47
; ; Solvency Ratio	**Total Assets / Total Liabilities**	1.33	1.37
Financial Leverage Ratios			
; ; Debt Ratio	**Total Debt/Total Assets**	0.53	0.52
; ; Debt-to-Equity Ratio	**Total Debt/Total Stockholders' Equity**	2.16	1.91
; ; Interest Coverage	**Earnings Before Interest and Taxes (EBIT) / Interest Charges**	1.62	1.73
; ; Asset to Equity Ratio	**Total Assets / Total Stockholders' Equity**	4.05	3.67
Profitability Ratios			
; ; Gross Profit Margin	**Sales - Cost of Goods Sold or Cost of Service / Sales**	0.04	0.07
; ; Net Profit Margin	**Net Profit / Sales**	0.01	0.01
; ; Return on Assets	**Net Income / Total Assets**	0.02	0.02
; ; Return on Equity	**Net Income / Total Stockholders' Equity**	0.06	0.06

Price/Earnings Ratio	**Price Per Share / Earnings Per Common Share**	240	63.4

Other Relevant Information
Please find attached Annual Report (SEC Form 17-A) of the Company for 2022, together with (i) the Company's 2022 audited separate and consolidated financial statements and (ii) the Company's 2022 Sustainability Report. For purposes of computing the "debt ratio" and "debt-to-equity ratio" as set out in this PSE EDGE template for SEC Form 17-A, "debt" covers interest-bearing debt and excludes lease liabilities. The amendment relates to the correction of the figures on "Use of Waste Energy (Low Pressure Steam) in Desalination Plant" appearing on page 18 of the 2022 Sustainability Report.

Filed on behalf by:

Name	Jhoanna Jasmine Javier-Elacio
Designation	Assistant Vice President - General Counsel and Corporate Secretary/Compliance Officer

C O V E R S H E E T

3	1	1	7	1

S. E. C. Registration Number

P E T R O N

C O R P O R A T I O N

(Company's Full Name)

S M C H E A D O F F I C E C O M P L E X 4 0 S A N

M I G U E L A V E. M A N D A L U Y O N G C I T Y

(Business Adress: No. Street City / Town / Province)

ATTY. JHOANNA JASMINE M. JAVIER-ELACIO
Contact Person

8884-9200
Company Telephone Number

1 2 **3 1**
Month Day
Fiscal Year

ANNUAL REPORT 2022
(SEC FORM 17-A)
FORM TYPE

0 5 **1 6**
Month Day
Annual Meeting
(for 2023)

Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 1996, 2010, 2014, 2016, 2018, 2019 and 2021
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Debt Outstanding: P244,947 Million (as of December 31, 2022 - CONSO)

144,423 (as of December 31, 2022)
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

Fiscal Numer

LCU

Document I. D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND
THE REVISED CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2022
   Date of Report (Date of earliest event reported)

2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801

4. PETRON CORPORATION ("Petron" or the "Company")
   Exact name of issuer as specified in its charter

5. Philippines
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code:

7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550
   Address of principal office Postal Code

8. (0632) 8.886-3888; 8.884-9200
   Issuer's telephone number, including area code

9. None
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Number of Shares of Stock Outstanding and
Amount of Debt Outstanding
(as of December 31, 2022)

Title of Each Class	Number of Shares Outstanding
Common Stock	**9,375,104,497 shares**
Series 3A Preferred Shares	**13,403,000 shares**
Series 3B Preferred Shares	**6,597,000 shares**
Total Debt Outstanding (consolidated)	**₽ 244,947 million**
Series B Bonds due 2023	**₽ 7.0 billion**
Series C Bonds due 2024	**₽ 13.2 billion**
Series D Bonds due 2025	**₽ 6.8 billion**
Series E Bonds due 2025	**₽ 9.0 billion**
Series F Bonds due 2027	**₽ 9.0 billion**

11. Are any or all of these securities listed on any Philippine stock exchange?

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange	Common Shares Series 3A Preferred Shares Series 3B Preferred Shares
Philippine Dealing & Exchange Corp.	Series B Bonds due 2023 Series C Bonds due 2024 Series D Bonds due 2025 Series E Bonds due 2025 Series F Bonds due 2027

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines (the "Corporation Code") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

The SEC Form 17-Q for the first quarter of 2023 will be filed by the Company by May 11, 2023.

(b) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the Company *(i.e.,* other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and the directors and executive officers of Petron Corporation from Vice President and up and the Corporate Secretary) as of December 31, 2022 totaling 2,514,320,833 common shares was ₱6,034,369,999.20 based on the price of ₱2.40 per share as of December 29, 2022, the last trading day of 2022. Petron had a public ownership of 26.72% as of December 31, 2022. The aggregate market value of the voting stock held by non-affiliates of the Company as of March 31, 2023 totaling 2,513,925,294 common shares was P8,421,649,734.90 based on the price of ₱3.35 per share as of March 31, 2023, the last trading day of March 2023. Petron had a public ownership of 26.71% as of March 31, 2023. Attached as A and B are the public ownership reports of the Company as of December 31, 2022 and March 31, 2023, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

N o n e

PART I – BUSINESS AND GENERAL INFORMATION

(A) Description of Business

(1) Business Development

(i) The Company

Petron was incorporated in the Philippines on December 22, 1966 as "Esso Philippines Inc." Petron was renamed "Petrophil Corporation" in 1974 when the Philippine National Oil Company ("PNOC") acquired it. In 1985, Petrophil and Bataan Refinery Corporation (formerly, the "Standard Vacuum Refining Corporation") were merged with Petrophil Corporation as the surviving corporation. The Company changed its corporate name to "Petron Corporation" in 1988. On September 13, 2013, the SEC approved the amendment of the Company's Articles by extending the corporate term of the Company for another 50 years from and after December 22, 2016. However, as a general rule under the Revised Corporation Code of the Philippines ("Revised Corporation Code"), which took effect on February 23, 2019, corporations with certificates of incorporation prior to the effectivity of the Revised Corporation Code, and which continue to exist, shall have perpetual existence. By operation of law, therefore, the Company shall now have perpetual existence.

As of March 31, 2023, the three (3) principal common shareholders of the Company holding at least 5% of its common stock were SEA Refinery Corporation ("SEA Refinery") (50.10%), PCD Nominee Corporation - Filipino (19.95%) and San Miguel Corporation ("SMC") (18.16%). SEA Refinery is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

The registered office address of Petron is at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

(ii) Subsidiaries

The direct subsidiaries of the Company as of December 31, 2022 are listed below:

- **New Ventures Realty Corporation** ("NVRC") is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter's operation. NVRC's wholly owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed "Las Lucas Construction and Development Corporation" upon approval by the SEC in September 2009 ("LLCDC"). In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation. In 2013, NVRC further acquired 100% of South Luzon Prime Holdings Incorporated, MRGVeloso Holdings, Inc. (which was merged into LLCDC effective June 1, 2018) and Abreco Realty Corp.

- **Overseas Ventures Insurance Corporation Ltd.** ("Ovincor") was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the refinery of Petron in Bataan (the "Petron Bataan Refinery"), the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- **Petron Freeport Corporation** ("PFC"; formerly, "Petron Treats Subic, Inc.") was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority

("SBMA") as a Subic Bay Freeport ("SBF") enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.

- **Petron Marketing Corporation** ("PMC") was incorporated on January 27, 2004 with the same business purpose as PFC but operated outside the SBF. PMC is a wholly-owned subsidiary of Petron. PMC turned over to Petron the operation of service stations that PMC held and the operation of Treats stores, effective August 1, 2016 and November 30, 2016, respectively. PMC also terminated its franchises to the fastfood stores.

- **Mema Holdings Inc.** ("Mema") was acquired by Petron in 2022. It is a holding company intended for the hauling and logistics requirements of Petron.

- **Petron Singapore Trading Pte. Ltd.** ("PSTPL") was established in 2010 as Petron's trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and petroleum product procurement and participate in Singapore's Global Trader Program, which allows the Company access to a wider selection of crude and petroleum product alternatives, resulting in further optimization of Petron's crude and petroleum product selection.

- **Petron Global Limited** ("Petron Global") is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.

- **Petron Finance (Labuan) Limited** ("Petron Finance") is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.

- **Petrochemical Asia (HK) Limited** ("PAHL") is a holding company incorporated under the laws of Hong Kong over which the Company obtained control in January 2013.

- **Petron Oil & Gas Mauritius Ltd.** ("POGM") is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

  Petron Oil & Gas International Sdn. Bhd. ("POGI") is a subsidiary of POGM and incorporated under the laws of Malaysia. It owns 73.4% of Petron Malaysia Refining & Marketing Bhd. ("PMRMB"), a public company listed on Malaysia's Stock Exchange ("Bursa"). POGI also wholly owns Petron Fuel International Sdn. Bhd. ("PFISB") and Petron Oil (M) Sdn. Bhd. ("POMSB"). PMRMB, PFISB and POMSB (collectively, the "Petron Malaysia") are companies incorporated under the laws of Malaysia and are engaged in the downstream petroleum business in Malaysia.

  The Petron Malaysia's distribution network is comprised of 12 product terminals and facilities all over Malaysia. PMRMB owns and operates the 88,000 bpd Port Dickson Refinery ("PDR"). The PDR produces a range of products, including LPG, naphtha, gasoline, diesel, jet fuel, and low sulfur waxy residue. Further, it also operates a Palm Methyl Ester ("PME") plant in Lumut, Perak, with a rated capacity of 78,000 metric tons per year of PME used for biodiesel blend.

  Petron Malaysia's fuels marketing business caters to both Retail and Commercial segments. The

Retail business markets fuels and other products through its network of more than 750 service stations, both company owned or dealer owned, located throughout Peninsular and East Malaysia. Retail sells top-of-the line fuel from Blaze 100, the only RON 100 gasoline in Malaysia, Blaze 97 and Blaze 95, all meeting Euro 4M standards specifications, while its premium Turbo Diesel and Diesel Max are all Euro 5 compliant diesel products, with 7% and 10% PME biodiesel blend, respectively. Petron's premier LPG brand, Petron Gasul, is also available in about 140 selected service stations in Peninsular Malaysia to add more convenience to the Malaysian household. Petron also provides one-stop shop service experience for motorists on the road through more than 300 Treats and approximately 430 P-Kedai convenient stores located within its service station network, along with other amenities and restaurants. Retail business also serves more than 10,000 fleet accounts nationwide through Petron Fleet Card, with microchip technology and available in both post-paid and pre-paid.

Petron Malaysia's commercial business serves four (4) segments: industrial and wholesale, aviation fuels, LPG and lubricants/specialties. The industrial business sells diesel and gasoline fuels to mini-stations and power plants, as well as to the manufacturing, plantation, transportation, fisheries, commercial and construction sectors, among others, while the wholesale segment primarily engages in diesel sales to company-appointed resellers catering to other industrial customers. PMRMB's aviation group sells jet fuel to key airline customers which operate at the Kuala Lumpur International Airport where the product is supplied through pipeline connected from the Port Dickson Terminal. PMRMB also markets Gasul LPG in 12-kg and 14-kg cylinders for domestic household use and 50-kg and bulk for commercial use. PFISB has its lubricants and specialties business, selling automotive lubricants both through the Retail service stations and appointed distributors network.

The above-named subsidiaries of the Company have no plans of engaging in lines of products or services other than those provided in connection with the promotion and enhancement of the business of the Company.

The Company and its subsidiaries are not subject of any bankruptcy, receivership or similar proceedings.

Operating Highlights

Sales

For the whole of 2022, the Company's consolidated sales volume stood at 112.8 million barrels, 37% higher than 2021's 82.2 million barrels.

Refining

The Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") upgraded the Petron Bataan Refinery to a full conversion refining complex. RMP-2 started its full commercial operation in January 2016.

The closure of the Shell Refinery since May 2020 leaves the Petron Bataan Refinery as the only remaining refining facility in the country.

In December 2021, the Petron Bataan Refinery renewed its registration with the AFAB as a registered enterprise. The registration will remain valid until revoked or cancelled. FAB-registered enterprises are entitled to avail of fiscal incentives under the Special Economic Zone Act of 1995 or the Omnibus Investment Code of 1987 such as (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases, subject to compliance with Bureau of Internal Revenue and AFAB requirements. Further, VAT will only be imposed on the Company as a FAB Registered Enterprise upon the withdrawal of products from the refinery instead of the VAT being payable upon importation of crude oil.

Product Supply and Distribution

The Company continues to implement programs to ensure adequate and timely product supply such as storage capacity additions, effective inventory management, keeping a sufficient fleet of tank trucks and marine vessels, and an inter-depot support system during periods of calamities.

Human Resources

In 2022, the Company aimed at providing learning opportunities to support the increasingly dynamic business conditions. The training programs were centered on fueling career growth through developing both hard and soft skills of the Company's talents. Capitalizing on online learning platforms such as MS Teams and Zoom, Petron dedicated 62,321 training hours for all employees or an average of 29 hours of training per employee.

In strengthening the leadership pipeline, leadership development programs were the top priority as Petron maximized the learning opportunities offered by SMC. This is supported by Petron's coaching program composed of 41 coachees and 35 coaches which generated 1,136 coaching hours in 2022.

Health, Safety and Environment ("HSE")

The Company's HSE programs continue to be an important element in the operations of its facilities. HSE programs of the Company include the Terminal EcoWatch assessment and oversight safety assessment and compliance inspections of the depots/terminals, service stations and third-party LPG filling plants, participation in industry-wide oil spill response exercises, emergency drills and exercises, safety seminars/trainings, and maintenance of management systems and ISO certifications on environment, health and safety.

All 30 terminals are certified under the new ISO 9001:2015 (QMS) and 29 terminals under ISO 14001:2015 (EMS) standards and ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System). Furthermore, all 15 Petron pier facilities are compliant with the International Ship and Port Facility Security Code ("ISPS Code") and certified by the Office of the Transport Security under the Department of Transportation ("DOTr"). The ISPS certification is a requirement by the International Maritime Organization for all international vessels calling on international ports and for all ports accepting international vessels.

The terminal Operations Division of the Company implemented the Loss Prevention System ("LPS"). LPS is a system to prevent or reduce losses using behavior-based tools and proven management techniques. With this new system, the Company aims to improve the over-all safety culture of the division to prevent all types of loses, and eventually apply the same system throughout the organization.

From January to December 2022, a total of 10.08 million safe man hours were achieved by the Head Office, the Petron Bataan Refinery and the Terminals.

Corporate Social Responsibility ("CSR")

Through Petron Foundation, Inc. ("PFI"), the Company remains in the consciousness of the Filipino public and in the process, support the Company's business growth. The Company continues to add value to the business by actively engaging with its host communities through relevant and strategic CSR programs that focus on education, environment, entrepreneurship and livelihood, and community engagement, as well as strengthening ties with its stakeholders.

Among the CSR and sustainability activities of Petron in 2022 were the following:

Education

- *Tulong Aral ng Petron*. In partnership with the Department of Social Welfare and Development ("DSWD") and the Department of Education ("DepEd"), Petron continued to implement its flagship education program Tulong Aral ng Petron ("Tulong Aral") in sending deserving children and youth through elementary, high school and college.By the end of school year 2021-2022, Tulong Aral had a total of 2,564 scholars from elementary to college in partner schools where the Petron's terminals are located. Two of the new graduates were hired by Petron in 2022 for its Controllers Division.

- Bataan scholarships. In 2022, a total of 21 graduates passed their engineering licensure exams. A number of past and recent graduates were employed by the Petron Bataan Refinery and Petron Limay Terminal in 2022.

- *Brigada Eskwela*. Petron continued to extend financial assistance to 102 public schools in its fenceline communities nationwide, benefitting nearly 68,800 students and educators.

Environment

- Bataan Integrated Coastal Management Program ("BICMP"). Petron continued to support the implementation of the BICMP in 2022. It remained a partner of the Provincial Government of Bataan in hosting the Pawikan Festival.

- Participation in the National Greening Program. Petron continued to support greening activities suc as the planting of over 2,500 trees in Bawing and Tagoloan's adopted areas, as well as the adoption of 20 hectares of coastal area in Davao del Sur for mangrove reforestation under Petron's Puno ng Buhay program.

Health and Human Services

- Petron Clinics. The Petron Clinics in Rosario, Pandacan and Limay complement government health centers with specialized medical services, such as x-ray, ultrasound, ECG and laboratory services. Due to the closure of the clinics as part of health protocols, Petron accommodated the request of Rosario, Cavite LGU for the temporary use of a room at the Petron Rosario Clinic to perform elective surgery one day each weekend, as the few government health facilities in the municipality have prioritized their available beds for Covid-related cases.

- Community Engagement. Petron Foundation supported the request of the Limay local government to build a pedestrian bridge over the busy Roman Highway to promote road safety.

- Responding to Crises.

- *COVID-19 Pandemic*. Petron Foundation helped over 5,000 Petron and SMC employees, third party service personnel, and endorsed individuals, as well as Limay residents, get vaccinated against Covid-19.

  And in response to the call of the Philippine Business for Social Progress ("PBSP") to support their the "Ready for School 2022" campaign, Petron Foundation donated to five (5) schools in areas in the vicinity of Petron's Head Office and terminals in the cities of Mandaluyong, Pasay, Cebu and Davao and provided students and teachers from these schools with alcohol, disinfectants, and face masks in preparation for the resumption of face-to-face classes in August 2022.

- *Natural Calamities*. Petron Foundation provided critical relief assistance to those affected by the severe earthquake in Abra. Through PBSP, Petron Foundation funded family packs containing a 15ft x 15ft tent/tarp, beddings, rice, sugar, coffee, biscuits and assorted canned goods, bottled water, and soap.

• <u>Engaging employees and partners</u>. Petron employees continued to take to heart their responsibility to society through active participation in the Volunteers In Action or VIA program by channeling their resources in kind to support those affected by supertyphoon Odette and the pandemic.

• <u>Adopt-a-School Program.</u> Petron continued to support basic education under the Department of Education's Adopt-a-School program, benefitting more than 17,000 children put in schools, the nearly 2,900 classrooms, and other support programs for students, teachers, and school administrators.

<u>Petron Malaysia</u>

Petron Malaysia has completed upgrading its Port Dickson Refinery with its Diesel Hydrotreater ("DHT") facility unit enabling Petron to produce Euro 5 specifications diesel products in line with Malaysian government's thrust of providing cleaner and more environment-friendly fuels to consumers. It also completed its Marine Fuel Import Facility 2 ("MIF2") which allowed importing of larger parcel sized finished products, thereby optimizing freight costs and reducing carbon emission with fewer frequency of sea vessel deliveries. As part of Petron's firm commitment to provide better value to consumers, Petron Malaysia recently enhanced its P-Miles Loyalty Program by launching its mobile app version offering better experience, more functionalities and tighter security features as compared to the conventional card-based program.

(2) Business of Petron

(i) Principal products or services and their markets

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, naphtha, LPG, diesel, jet fuel, kerosene, and petrochemicals (benzene, toluene, mixed xylene, propylene and polypropylene). When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are the retail (service station), industrial, LPG and lube trades. Petron sells its products through a nationwide network of service stations, LPG dealerships and lube outlets and to industrial end-users and bulk off-takers.

The Company also continues to expand its non-fuel businesses through the relaunch of the Treats convenience store and the addition of various food kiosks, restaurants, and other service establishments at some of its stations.

(ii) Percentage of sales or revenues by foreign sales

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2020 to 2022:

	Domestic	Exports/International	Total
2020, in million pesos	166,820	119,213	286,033
2021, in million pesos	223,222	214,835	438,057
2021, in percentage	51%	49%	100%
2022, in million pesos	412,743	444,895	857,638
2022, in percentage	48%	52%	100%
2020, in percentage	58%	42%	100%

(iii) Distribution methods of products or services

From the Petron Bataan Refinery, Petron moves its products, mainly by sea, to depots, terminals and airport installations situated throughout the Philippines. Its distribution network, comprised of 35 terminals and sales offices across the country, is the most extensive one for petroleum products in the country. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines through its 12 into-plane facilities.

Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector through its network of around 1,900 retail service stations in the Philippines as of December 31, 2022. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network.

Petron also manufactures lubricants and greases through its blending plant in Manila, and these products are sold through its service stations and various lubes outlets.

(iv) New products or services

The Company's 2022 new products and approvals from accredited global industry certifying bodies and original equipment manufacturers ("OEMs") are described below.

For 2022, Petron was able to secure the renewal of licenses and approvals for industry standards such as the International Lubricant Specification Advisory Committee, Association des Constructeurs Européens d'Automobiles/Association European Automobile Manufacturers Association, and the National Marine Manufacturers Association and OEM approvals from Porsche, Volvo, Mack, Renault, Cummins, MTU, and Scania.

Petron obtained certifications and approvals from globally accepted licensing organizations and OEMS, which are also applicable to the Malaysian, Chinese, Brunei, Vietnamese and Cambodian markets.

- Registration with Association des Constructeurs Européens d’Automobiles/Association European Automobile Manufacturers Association (“ACEA”)

  In 2022, Petron renewed the registration for its Blaze Racing, Rev-X and Ultron automotive lubricants with ACEA in compliance with the European Engine Lubricant Quality Management System.

- License with American Petroleum Institute (“API“)

  Petron also renewed its license to use the API service symbol and API certification mark for the following Petron automotive engine oils:

Product	API Quality Level
Blaze Racing Fully Synthetic 0W-20	API SP/SN PLUS Resource Conserving, ILSAC GF-6A
Blaze Racing Fully Synthetic 5W-30	API SN
Blaze Racing Fully Synthetic 5W-40	API SN
Blaze Racing Premium Multi-Grade 20W-50	API SL
Petron Blaze Racing HTP 0W-40	API SN
Rev-X All Terrain 5W-40	API CJ-4 / SM
Rev-X Fully Synthetic 5W-40	API CJ-4 / SN
Rev-X Fully Synthetic 5W-40	API CJ-4 / SM
Rev-X Premium Multi-grade 15W-40	API CI-4 / SL
Rev-X Trekker 15W-40	API CI-4 / SL
Rev-X Turbo HTP	API CJ-4 / SN
Ultron Fully Synthetic 5W-40	API SN
Ultron Premium Multi-Grade 20W-50	API SL
Ultron Race 5W-40	API SN

- OEM Approval Renewals

  The following OEM approvals were renewed in 2022:

  - Blaze Racing HTP SAE 0W-40: Porsche A40
  - Rev-X Turbo HTP: Volvo VDS-4, Mack EO-O Premium Plus and Renault VI RLD-3; Cummins CES 20081
  - Rev-X Premium Multi-Grade SAE 15W-40: MTU Oil Category 2
  - Petron Regatta 2T Outboard: NMMA TC-W3
  - Rev-X Fully Synthetic SAE 10W-40: Scania LDF-3

(v) Competition

Petron operates in a deregulated oil industry along with 400 other industry players. With several players sharing in the market, competition is intense. Retail and depot network expansion, pricing, and various marketing programs are being employed to gain a bigger share of the domestic market. However, Petron’s wide retail and depot network and its full range of products allow it to expand its reach in the domestic market more effectively than competition.

(vi) Sources and availability of raw materials and the names of principal suppliers

In 2022, Petron purchased all its term and spot crude requirements through its wholly-owned subsidiary, PSTPL. Majority of the crude purchases were sourced under term contracts with two (2) suppliers and various spot suppliers for the balance. For its 2023 crude requirements, Petron, through PSTPL, will continue to source from both term and spot suppliers.

Petron purchased most of its finished product import requirements in 2022 also through PSTPL. For 2023, aviation gasoline, asphalt, LPG, high RON gasoline and base oil contracts were renewed for the period January to December 2023 through PSTPL.

For its coco-methyl ester ("CME") and ethanol supply, Petron continued to support the directive of the DOE on prioritization of locally produced CME and ethanol, complying with government regulation. About 61.6% of the total ethanol and 100% of CME requirements of the Company in 2022 were sourced from various local producers.

(vii) Dependence on one or a few major customers and identity of any such major customers

Petron and its subsidiaries do not have a single external customer from which sales revenue generated amounted to 20% or more of the total revenue.

(viii) Transactions with and/or dependence on related parties

Petron, certain of its subsidiaries and its affiliate, as well as SMC and certain of its subsidiaries, purchase products and services from one another in the normal course of business.

On August 6, 2019, the Board of Directors of the Company approved the Policy on Related Party Transactions of the Company that requires that all related party transactions of the Company be conducted on an arm's length basis and under fair terms in order that no shareholder or stakeholder will be unduly disadvantaged and there will be no prejudice to the interest of the stakeholders of the Company. Under the terms of this policy, board approval is required for related party transactions with the same related party, either individually or in aggregate over a 12-month period from the first transaction, amounting to at least 10% of the Company's total consolidated assets based on its latest audited financial statements.

On November 8, 2022, upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company, the Board of Directors approved the proposed transactions for 2023 between the Company and PSTPL.

For 2022, the proposed transactions for 2022 between the Company and PSTPL were approved by the Board of Directors on November 9, 2021, upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company.

Described below are transactions of Petron with related parties as of 2022:

1. Supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the fuel and lube requirements of selected SMC plants and subsidiaries.

2. Purchase of goods and services, such as those related to construction, information technology, shipping and terminaling, from various SMC subsidiaries.

3. Lease agreements with San Miguel Properties, Inc. for office space covering 6,683 square meters and certain parcels of lands where service stations are located.
4. Lease agreements with SMC covering certain parcels of lands where service stations are located.

5. Payment to SMC for its share in common expenses such as utilities and management fees.

6. Long-term lease agreements with NVRC covering certain parcels of lands where the Petron Bataan Refinery and some of its depots, terminals and service stations are located.

7. Retail of its fuel products through its subsidiary PFC as well as lubes through PFISB.

8. Insurance coverage from Petrogen which, in turn, obtains reinsurance coverage from Ovincor and other local reinsurers.

9. Certain advances to PCERP for investment opportunities.

10. Trading agreement with PSTPL for the procurement of crude oil, and trading of finished petroleum products and other materials such as ethanol, coal, catalysts and additives.

11. Engagement of PSTPL to perform the chartering function such as the renewal and negotiation of contract of affreightments and commodity risk management via hedging transactions.

12. General management services to PFISB.

13. NVRC and SMC subsidiaries entered into various lease agreements for portion of lands located at Limay, Bataan.

14. Logistics and freight forwarding agreement with PLI.

15. Short-term loans from Bank of Commerce.

16. Certain advances from San Miguel Insurance Co. Lt. and Ovincor.

(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements

The Company's intellectual property registrations and applications as of December 31, 2022 are described below.

Trademark. Petron has registered the following trademarks for a term of 10 years: Petron (word mark), Petron (logo), P logo (color), P logo (black and white), Petron Canopy Fascia, Petron Canopy Fascia (color), Petron Canopy Fascia (black and white), Blaze, Diesel Max, Petron Blaze 100, Blaze 100 Octane Euro 6, Petron XCS3, Xpert Diesel Oils, Petron Super Xtra Gasoline, Xtra Advance (inside a rectangle device), Tri-Action, Blaze Racing, Tri Plus, Petron XCS3 Triple Action Premium Unleaded,Thermal Control System, Tri-Action Advantage, Petron XCS3, Triangle Device, Boomerang Device, Gasul, Gasul (stylized), Gasulette, Gasulite, Gasulgrille, LPG Gasul Cylinder 50 kg, Gasul and Device, LPG Gasul Cylinder 11 kg, Petron Gasul 11-kg POL-VALVED Cylinder, Gasulito (word mark), New Gasulito (word mark), Petron Gasul Elite (wordmark), Petron Gasul Elite (Black & white), Petron Gasul Elite Blue Pantone 298, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED, Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED, Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, REV-X, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Rev-X Turbo, Rev-X Power, Ultron Rallye, Ultron Extra, Ultron Race, Ultron Touring, Sprint 4T, Clean 'n Shine, Rider, Racer Maximum Performance, Rider 4T, ADVANSTRASSE MOTO (word mark), ADVANSTRASSE MOTO (logo), 3D Engine Oil Lubricant Bottle 1L and 6L (black), 3D Engine Oil Lubricant Bottle 1L and 6L (red), 3D Engine Oil Lubricant Bottle 1L and 6L (silver), 3D Engine Oil Lubricant Bottle1L and 6L (blue), 3D Specialty Lubricant Bottle 1L (silver), 3D Specialty Lubricant Bottle 1L (black), Petron Value Card and Device, Petron Super Driver, Petron Fleet Card & device, e-fuel, Miles

Better (word mark), Pshop, Car Care Center & Logo, Treats (word mark), Treats & device, Treats & device with blue background, Petron Laser Wash, Petron Car Wash, Lakbay Alalay (word mark), Lakbay Alalay (logo), Lakbay Alalay, Lakbay Ligtas, Lakbay Alalay Para sa Kalikasan, Sagip Alalay, Tulong Aral ng Petron & Device, Puno ng Buhay, Fuel Hope, Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Everyone's Vision & device, I fuel (logo), I Fuel Hope, I Fuel Communities, Petron Blaze Spikers, Petron Lakbay Pinoy, Petron! Get Rewards & Benefits, Ultimate Release from Engine Stress, Your friend on the Road, Super Tsuper, Road Safety & device, Miles, Extra with a car device against a red background, Gift and App Device, Footprints Inside a Sphere & Device, Petron Ronnie Mascot in Seatbelt & device, Ronnie Mascot, Seat Belts Save Lives, Pay with Points Save your Cash, Thermal Stress Stabilizing System, Dynamic Cleaning Technology, Your Fleet Your Rules, Blu & Device, Blu with Gasul Tank, Gas Padala, Performance Run, Petron Best Day, Super Saya, Power that Persists, Mean Clean Machine, Petron Motorsports, Fuel Wise (long form), Fuel Wise (flag type), Fuel Wise (long form in black), Fuel Wise (flag type in black), Fuel Wise, Fuel Wisely with Petron (word mark), Be Sure to Fuel Wisely (word mark), Kalakbay (word mark), Kasabay sa Lakbay (word mark), Kasabay sa Paglakbay (word mark), Kasabay sa Paglalakbay (word mark), #Beastmode, Kalmakina (colored), Kalmakina (word mark), Kalmakina (black and white), Hypex, 2T, Turnol, Petrogrease EP-2, Gearfluid, Petron STM, Petron Autokote, GEP, Petrokote, Marinekote, Petron 2040, Penetrating Oil, Solvent 3040, Pchem, Xtend, HTP, Petrolene, PCHEM DEF (Diesel Exhaust Fluid), Petromate, TCS and Device, TDH50 (word mark), Econo, Elite, Pantra, Petron Pinoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Maxi Gas, Xtra Exceed, Xtra Ultra, Xtra Prime, Xtra Miles, Pinoy HP Gasoline, Xtra Excel, UnliPower Saver Gasoline, Carbon Buster, Petron PMB, Reyna (logo), and Reyna (word mark), Turbo Diesel (logo), Vision Petron, Automotive Fuels Specialist, 3D Gasul 2.7kg, 3D Fiesta 2.7kg, 3D Gasul 2.7kg (colored), 3D Fiesta 2.7kg (colored), AUTO ADVANSTRASSE, AUTO ADVANSTRASSE logo, REV-X HD4X, REV-X HD, Sprint 4T (logo), ELITE (logo), Fe Dela Fiesta (logo), New Petron Logo, Vision Petron (logo), 2T (logo), Zerflo and Puno ng Buhay, Petron Sagip Alalay (new logo), XCS (logo), Reyna Gas, Ultron (logo), Petron Super Driver Card (logo-long form), Petron Super Driver Card (logo-flag form) and Car Care Center (logo).

Spinol, Petrokut, Petron Railroad Extra, Rubbex, Dust Stop Oil, Oil Saver, Milrol, Petron GST, Petron with XCS, With XCS, Super DC, Petromul CSS-1, Power Booster, Automatic Transmission Fluid, Petrotherm, Petrosine, Petron HDX, Petron TF, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Molygrease and Petron GX are registered for a term of 20 years.

Pending Trademark Applications. Petron has pending applications for registration of the following trademarks: Miles Better, Turbo Diesel, 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (black), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (dark grey), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (blue), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (red), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (silver), EXPRESS (logo), CCC Automotive Fluids Specialist, Blaze 100 Octane (logo), XTEND (logo), Petron Value Card (logo – long form), Petron Value Card (logo – flag form), Petron Chinese name (logo – long form), Petron Chinese name (logo – flag form), Gas Up & Dine, Champion Gasoline, Xtra Advance, Sprint 4T Racer, Petron Pinoy Fuels (wordmark), Petrogrease (wordmark); HiComp, Hydrotur, Rider 4T, Petromar (wordmark) and Turbo Plus (logo).

Petron also has registered and pending trademarks in Malaysia, Indonesia, Cambodia, Thailand, Myanmar, Australia, China, United Kingdom, India, Japan, Republic of Korea, Singapore, Hong Kong, China and Saudi Arabia. The Company has filed trademark applications in Malaysia relating to its Malaysian operations. It has obtained copyright protection for the stylized letter "P" and has registered trademarks in Malaysia, including but not limited to the Petron, Petron Logo, Gas Miles, Gasul, Fiesta Gas, Energen, Petron Plus, Perks, Miles, Propel, XCS, Petromate, Hydrotur, Miles with P-Logo, MILES with P Logo and 'Privilege Miles Card' words, Petroil, Fuel Journeys, Better by Miles, Petron Cares, DCL 100, Petromar, Energy, Treats with Crocodile Logo, and Petron Greenfuel, Kedai Mart with P logo, Rider, Rider 4T, Petrolaysia, Prime, Petron with Canopy Fascia logo, Petron Racing, Sprint 4T, Rev-X Diesel Engine Oils, Prestige, Xtra Mile, Xtra Unleaded, Treats and Device, Petron Value Card Rewards &

Benefits, Turbo Diesel, Diesel Maz, Blaze Gasoline, Petron XCS3, Powerburn 2T & Device, Racing, Powerburn, Petrogrease, Greaseway, GEP, Gearfluid, Clean 'n Shine, ATF, Treats & Device, Powered by Petron, Miles with P Logo & Petrol Word, Petromar HD, Petrogrease EP, Blaze with P Logo and Petrol, Fuel Trust, Fuel Success, Fuel Hope, Blaze Racing, Fuel Care, Treats, Petron Motorsports, Fuel Life,Fueled by Petron, Miles Better, Your Fleet Your Rules, 5th year Anniversary Fuel Happy, and Petron Car Care Center.

Copyright. Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter "P" and two (2) flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights are protected during the lifetime of the creator and for 50 years after the creator's death.

Industrial Design. Petron has registered the following industrial designs: Petron Specialty Lubricant Bottle (1Liter container), Petron Engine Oil Bottles (4L and 6L container), Petron Fiesta 2.7kg LPG Cylinder, and Petron Gasul 2.7kg LPG cylinder.

Pending Industrial Design Applications. Petron has a pending application for registration of the industrial designs for its Petron Engine Oil Bottles (1L and 800ML Jerry can bottle container).

(x) Government Approval of Principal Products or Services

Government approval of Petron products and services is not generally required. Petroleum products, both locally refined and imported, however, must conform to specifications under the Philippine National Standards. Importations of petroleum products and additives are reported to the DOE, in accordance with the Downstream Oil Industry Deregulation Act of 1998 and its implementing rules and regulations. Clearances are secured from concerned government authorities for importations of restricted goods. The supply of products or services to government and government agencies undergo a bidding process in accordance with law.

(xi) Effect of existing or probable government regulations on the business

- <u>Electric Vehicle Industry Development Act (EVIDA).</u> Republic Act No. 11697 or EVIDA lapsed into law on April 15, 2022. The law provides for a national policy framework to develop the electric vehicle industry in the Philippines. The promotion of the purchase and use of electric vehicles may impact oil industry demand.

- <u>Corporate Recovery and Tax Incentives for Enterprise Act ("CREATE Act")</u>. Republic Act No. 11534 or the CREATE Act was signed into law by the President of the Philippines on March 26, 2021 and is expected to take effect on April 12, 2021. The CREATE Act lowers corporate income taxes and rationalizes fiscal incentives.

  The corporate income tax rate for domestic corporations and resident foreign corporations has been reduced to 25% effective July 1, 2021 and on January 1, 2021 for non-resident foreign corporations. Domestic corporations and resident foreign corporations no longer have an option to be taxed at 15% on gross income and the rate of the minimum corporate income tax shall be lowered to 1% from July 1, 2020 to June 30, 2023. Under the CREATE Act, persons that directly import petroleum products for resale in the Philippine customs territory and/or in free zones will be subject to applicable duties and taxes. However, importers can file for the refund of duties and taxes for direct or indirect export of petroleum products, including the subsequent export of fuel, subject to the appropriate rules of the fuel marking program, and/or other tax-exempt sales by the importer.
  The CREATE Act also provides for the rationalization of tax incentives that may be granted by investment promotion agencies (such as the AFAB) to qualified registered business enterprises.

As part of the rationalization of tax incentives, the CREATE Act provides that (i) any law to the contrary notwithstanding, the importation of petroleum products by any person will be subject to the payment of applicable duties and taxes under the Customs Modernization and Tariff Act and the National Internal Revenue Code, respectively, upon importation into the Philippine customs territory and/or into free zones (as defined in the Customs Modernization and Tariff Act), subject to the right of the importer to file claims for refund of duties and taxes under applicable law; and (ii) the importation of crude oil that is intended to be refined at a local refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process, will be exempt from payment of applicable duties and taxes, provided the applicable duties and taxes on the refined petroleum products shall be paid upon the lifting of the petroleum products produced from the imported crude oil in accordance with the rules and regulations that may be prescribed by the Bureau of Customs and the Bureau of Internal Revenue.

Under the CREATE Act, the Company shall be entitled to, among others: (i) a lower corporate income tax and (ii) the tax exemption for the importation of crude oil to be refined at a local petroleum refinery.

Under the tax regime prior to the effectivity of the CREATE Act, domestic refiners are disadvantaged because they are made to pay VAT upon importation of crude oil which they cannot recover until the finished products refined from them are sold. Compared to non-refiners, which pay VAT upon importation of finished products, domestic refiners are unable to recover the VAT for a longer period. The Company believes that the CREATE Act allows it to be more competitive as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel which only pay after sales tax.

- <u>LPG Industry Regulation Act.</u> Republic Act No. 11592 or the "LPG Industry Regulation Act", enacted into law on October 14, 2021, aims to ensure health, safety, security, environmental and quality standards in the LPG industry by instituting reforms in the existing standards and practices. The law defines prohibited acts such as engaging in LPG industry activities without the required licenses, certificates, and permits; selling, fabricating, or refilling unfilled LPG cylinders without the approval of the trademark owner; selling, exchanging, possessing empty LPG cylinders that belong to another trademark owner; and non-compliance with standards such as those relating to safety, materials, and markings. It also provides for the establishment of an LPG Cylinder Exchange and Swapping Program for the exchange, swapping or buy back of LPG cylinders among industry participants and the establishment of accredited swapping centers.

- <u>Tax Reform for Acceleration and Inclusion (the "TRAIN Law")</u>. Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposed a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period was P2.65-P2-P1 per liter ("/li") per year for gasoline, P2.50-P2-P1.50/li for diesel and fuel oil, P1-P1-P1/kg for LPG, and P0.33-P0-P0/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative.

  The TRAIN law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost was eventually passed on to oil companies beginning 2020 which resulted in higher fuel prices.

- <u>Biofuels Act of 2006 (the "Biofuels Act")</u>**.** The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/cocomethyl ester

("CME") components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the DOE issued in June 2015 its Circular No. 2015-06-0005 entitled "Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend" which currently exempts premium plus gasoline from the 10% blending requirement.

- Renewable Energy Act of 2008 (the "Renewable Energy Act"). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (*e.g.,* biomass, solar, wind, hydro, geothermal) through various tax incentives such as seven (7)-year income tax holiday and duty-free importation of renewable energy equipment and machinery. The sale of power generated from these sources is also exempt from value-added tax under the TRAIN Law. The growth in renewable energy may displace or reduce use of oil-based power plants affecting the Company's sales to the power sector.

- Clean Air Act of 1999 (the "Clean Air Act"). The Clean Air Act established air quality guidelines and emission standards for stationary and mobile equipment. It also included the required specifications for gasoline, diesel and IFO to allow attainment of emission standards. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.

- Laws on Controlled Chemicals (Presidential Decree No. 1866 as amended by Republic Act No. 9516). The implementing rules and regulations for this amended law were approved on June 9, 2016 and listed the chemicals under the control of the Philippine National Police. These rules reduced the controlled list from 101 to 32 chemicals and further classified 15 chemicals as high-risk and 17 as low-risk substances. The rules also outline the procedures for regulating, storing, handling and transporting chemicals.

- Compliance with Euro 4 standards. In September 2010, the DENR issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015 – 06-0004 entitled "Implementing the Corresponding Philippine National Standard Specifications (PNS) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions" directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.

- Department Circular 2014-01-0001. The DOE issued Department Circular 2014-01-0001 directed at ensuring safe and lawful practices by all LPG industry participants as evidenced by standards compliance certificates. The circular also mandates that all persons engaged or intending to engage as a refiller of LPG shall likewise strictly comply with the minimum standards requirements set by the DTI and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.

- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority ("MARINA") mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.

- Oil Marine Pollution Circulars. The Philippine Coast Guard has memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by all marine vessels, coastal and offshore facilities and other facilities utilizing or storing petroleum products. The circulars identify the prohibited acts and provide the penalties.

- Anti-Competition Law (the "Philippine Competition Act"). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission ("PCC") was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation. Currently pending with the House of Representatives are two bills to amend the Philippine Competition Act to, among others, legislate competition policy, amend requirements for PCC notification, and strengthen the powers of the PCC.

- Amended Price Freeze Act of 2013. This law mandates the implementation of a 15-day price freeze of basic necessities, including LPG and kerosene, for areas declared under a state of emergency or calamity.

- Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3% tariff. To level the playing field, Petron filed a petition with the Tariff Commission to apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron's petition and issued Executive Order 890 which eliminated import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.

- Department Circular 2019-05-008. This DOE circular requires oil companies to submit a detailed computation, with corresponding explanation and supporting documents, of the cost components of liquid fuel and LPG on a per liter and per product basis. The circular has not been implemented following the temporary restraining orders and writs of preliminary injunction issued by the Regional Trial Courts of Taguig and Mandaluyong.

- Department Circular 2021-06-0014. The DOE issued the "Revised Circular for the Accreditation and Submission of Notices and Reports of the Philippine Downstream Oil Industry Pursuant to the Biofuels Act" on July 2, 2021 requiring oil companies to submit notices, accreditation and reportorial requirements using revised templates in relation to the utilization of biofuels. The new circular provides for more stringent penalties and additional monthly and quarterly reports for DOE to monitor compliance with regard to the utilization of biofuels, including compliance to local monthly allocation for ethanol.

- Department Circular 2021-09-0029. The "Revised Guidelines on Notices and Reportorial Requirements Pursuant to the Oil Deregulation Law", published on November 5, 2021, requires the submission of monthly and annual reports using revised templates for DOE to monitor importation and/or production of oil companies (and for Petron as a refiner) and includes additional reportorial requirements for lubes and blending plants, with more stringent penalties for non-compliance.

(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities

The Company's Research and Development ("R&D") is responsible for all product development that complies with government laws and regulations such as the Clean Air Act and the Biofuels Act. Other drivers of product innovations are the requirements of original engine manufacturers and the latest technological trends in the industry.

Petron R&D spent a total of ₱58.87 million in 2022, lower than the ₱61.71 million in 2021. Expenses in 2020 totaled ₱65.55 million.

(xiii) Costs and effects of compliance with environmental laws

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. In 2022, the Company spent a total of ₱41.45 million for treatment of wastes, monitoring and compliance, permits, and personnel training at the Petron Bataan Refinery while in 2021, it spent a total of ₱39.52 million.

(xiv) Total number of employees

As of December 31, 2022, the Company and its subsidiaries had 2,957 employees, with 2,171 employees in the Company (comprising one president, one general manager, 28 vice presidents and assistant vice presidents, 1,546 managerial, professional and technical employees, and 595 rank-and-file employees); 659 employees of the Company's Malaysian operations; 20 in PSTPL; 94 in PLI; and 13 in PFC.

Petron has CBAs with its three (3) labor unions, namely: (i) Bataan Refiners Union of the Philippines ("BRUP"), which is affiliated with the Philippine Transport and General Workers Organization; (ii) Petron Employees Labor Union ("PELU"), affiliated with the Philippine Transport and General Workers Organization, and (iii) Petron Employees Association ("PEA"), which is affiliated with the National Association of Trade Unions. The CBAs with BRUP and PELU cover the period from January 1, 2022 to December 31, 2024. PEA's CBA covers the period from January 1, 2020 to December 31, 2022. Preliminary discussions of Petron with the representatives of PEA have started in preparation for the formal CBA negotiations. In the meantime that negotiations and the finalization of the renewal of the CBA is ongoing, the expiring CBA remains effective pursuant to its terms that provide for a carry-over of the CBA provisions until their renewal has been signed by the parties.

In addition to the statutory benefits, the Company provides medical and life insurance, vacation, sick and emergency leaves, computer and emergency loans to employees, and a savings plan program.

(xv) Major Risks Involved

The Company further enhanced its risk management process and practices with the appointment of the Chief Risk Officer of the Company who supervises the entire enterprise risk management process of the Company and spearheads the development, implementation, and continuous improvement of the Company's enterprise risk management processes and documentation. He also heads the Risk Management Group, the dedicated risk management group of the Company tasked to lead the enterprise risk management program of the Company. All Division Heads are designated risk owners of all risks emanating from their respective groups and each group is represented in the Risk Management

Committee, the working group which was formed to become the conduit in cascading risk management efforts of Management to all employees and in receiving any feedback from them.

The primary objective in implementing the Company's enterprise risk management system is to develop the Company's sustained ability to make apt and timely decisions on risks that may adversely impact the attainment of company objectives and goals through proper governance and the integration of risk management in the daily operations and performance of the entire organization. Identified risks are analyzed, evaluated and treated and major risks are regularly reported and raised to top management level for continuous monitoring and decision-making. The risk management process is integrated in the yearly business planning of the all major divisions and departments, with the resulting annual business plan formulated being presented to the Board for approval.

The Company generally classifies its risks into four (4) major categories, namely: financial risks, strategic risks, operational risks, and compliance risks. Major risks are those which have been evaluated to have a high likelihood of occurrence with a huge magnitude of consequences if left unaddressed.

I. Major Risks

The following were the major risks identified for 2022:

(1) **Cyber Security Risk** is a risk related to the loss of the confidentiality, integrity or availability of information, data, and business systems that has potential adverse impact to operations, reputation, brand, financials, or assets of Petron. These risks remain to be a potential threat with the possibility of severe consequences due to continuing proliferation of insidious operations.

(2) **Foreign Exchange Risk** arises from the difference in the denomination of majority of the revenues of the Company in Philippine peso against the bulk of the costs of the Company denominated in US dollars. Exposure to foreign exchange arises from US dollar sales and purchases of crude oil and petroleum products, foreign-denominated liabilities and equity securities, exports, and mark-to-market of trade receivables. Changes in exchange rates between currencies impact the business financial performance or financial position of the Company.

(3) **Interest Rate Risk** is the risk associated with increasing cost of borrowing due to changing interest rates for loans. The Company's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Company to cash flow interest rate risk.

(4) **Liquidity Risk** is the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due. This may arise from the funding gap brought about by the mismatch in the timing and the amount between cash collections and disbursements of the Company.

(5) **Profit Margin Risk** is the risk associated with continuing volatility in crude oil and petroleum product prices that may impact operating profits. This has been on fluctuating trends brought about primarily by the impact of the Covid 19 pandemic, the Russian –

Ukraine war, and other geo-political developments which resulted in continuing imbalances between the global supply and demand of crude oil and petroleum products. Volatility in prices and margins may result in significant cash flow variability which may affect the Company's cash position and working capital requirements and possibly result in higher financing expenses.

(6) **Substantial Disruption in Operations** is a risk resulting in a slowdown or shutdown of the Petron Bataan Refinery, terminals, depots and other similar facilities caused by serious equipment failure, accidents, operating upsets, human error or natural events. The disruption can also result in personnel injury, damage to property, loss of life and even financial losses caused by shortage in supply of petroleum products or inventory build-up. This type of risk can also emanate from a disruption in crude or product supply caused by various adverse circumstances such as natural calamities, vessel incidents, terrorism, or war which can lead to a serious supply problem.

II. Management of Major Risks

The Company's management of the above major risks is discussed below.

(1) **Cyber Security Risks**

(a) Petron has a robust and functioning information technology ("IT") security management system that can address and respond to a wide range of cyber security risks. Examples of the technologies and tools employed are firewalls, encryptions, anti-virus software, network monitoring, mobile device management, and drive encryptions.

(b) Current major initiatives include conditional access on devices to enforce compliance with security policies, multi-factor authentication to protect accounts and identities, information classification labeling to prevent leakage of sensitive information, and regular user access reviews.

(c) Petron has a dedicated IT security function overseen by an IT Security Steering Committee to direct its IT security roadmap. This roadmap is aimed to deliver a strong internal control posture against cybersecurity and is periodically reviewed to ensure that Petron keeps up with evolving cybersecurity risks.

(2) **Foreign Exchange Risks**

(a) The Company hedges its dollar-denominated liabilities using forwards and other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.

(b) Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded through an enterprise resource planning software that monitors financial transactions also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices. In addition, the Company's over-all net exposure position is monitored daily through generation of exposure reports and is regularly reviewed by Management. This allows timely awareness and response to contain losses or provide guidance for hedging strategies posed by foreign exchange exposure.

(c) The Company engages in active risk management strategies that include, among others, entering into derivative products which are hedge-effective based on currency, amount and timing of respective cash flows. The Company uses hedge accounting to reduce volatility created by the repeated adjustment of a financial instrument's value by enhancing the basis for recognizing gains and losses on hedging instruments by matching the timing of their impact to profit and loss with the hedged exposure.

(d) Should prevailing market conditions favor securing Philippine peso-denominated loans to refinance US dollar-denominated liabilities, the Company converts its US dollar-denominated loans to minimize foreign currency exposure of the Company.

(3) **Interest Rates Risks**

(a) The Company manages its interest rate costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charges by other credit banks.

(b) The Company's investment policy is to maintain adequate yield to match or reduce the net interest cost from the Company's borrowings prior to deployment of funds to their intended use in operations and working capital management. The Company invests only in high-quality financial instruments while maintaining necessary diversification to avoid concentration risk.

(c) The Company also enters into derivative products under hedge accounting to partly cover its long-term floating interest rates exposure. Similarly, the Company proactively monitors the financial markets to be able to identify opportunities to lower financing cost through refinancing.

(4) **Liquidity Risks**

(a) The Company constantly monitors and manages its liquidity position, liquidity gaps or surplus daily. The Company maintains access to credit lines from onshore and offshore banks to ensure funding for working capital requirements, especially in times of increasing prices.

(b) The Company explores alternative working capital sources to augment its funding base including, among others, debt and capital markets fund raisings.

(c) The Company adopts banking facilities solutions to liquidity/cash management that aid the Company in shortening and optimizing its cash cycle through bills purchase facilities, cash sweeping arrangements, and other collection solutions.

(d) The Company ensures prudent management of cash through regular monitoring and evaluation of the Company's financial performance, continuous planning of the uses of cash, and cautious spending for programs and capital projects.

(5) **Profit Margin Risks**

(a) The Company uses margin hedging strategies to mitigate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future US dollar price of Dubai crude oil and that of a selected product manufactured from the crude. This partially locks in the refining margin of the Company.

(b) The Company engages in commodity hedging to protect crude and product inventories from potential inventory losses arising from significant drops in prices.

(c) Given the high volatility of oil markets, the Company conducts a regular assessment and recalibration of refinery utilization considering outlook on crude and fuel prices, as well as demand, to ensure optimized operations and margins.

(d) The Company enters into long-term sales contracts for certain fuel and petrochemical products whenever these are financially attractive. Such contracts guarantee long-term revenues and a market for refinery production.

(6) **Substantial Disruption in Operations**

(a) The Company maintains insurance whose coverage includes property, marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, and machinery breakdown. One of the main insurance policies of the Company, the Industrial All Risk policy, covers the Petron Bataan Refinery for material damages, including machinery breakdown cover.

This operational risk is more critical to the Petron Bataan Refinery because of the impact of any disruption, where a severe incident can trigger adverse disruptive consequences all the way down to the product consumer level.

(b) The Petron Bataan Refinery, while very particular in achieving operational efficiency, uses as its primary performance index its operational availability, *i.e.,* providing the longest possible running hours. For this reason, it has long developed an asset policy program for its facilities, the main objective of which is to ensure continuous and efficient refinery operations while regularly performing the required preventive, corrective, and turnaround maintenance works.

(c) The Petron Bataan Refinery continues to be Integrated Management System ("IMS")-certified covering ISO 9001- 2015 for Quality Management System, ISO 14001- 2015 for Environmental Management System and ISO 18001- 2007 for Occupational Health and Safety Assessment Series. All ports at the refinery and terminals are compliant with the International Ship and Port Security Code and certified by the Office of the Transport Security under the DOTC.

(d) In the case of crude supply, crude diversification continues to reduce dependence on crudes coming from the Middle East. For both crude and products, increasing storage capacity and days' inventory are also being pursued.

III. Other Risks

Risks which are evaluated to have low likelihood of occurrence and low cost impact, or even if the likelihood of occurrence is high but the cost impact is minimal, are considered minor or medium level risks. These are included in each Division's Risk Register which is continually monitored by the Divisions and risk levels updated as internal and external developments impact on them. Examples of such risks are manpower attrition, supply chain disruption, minor equipment failure, rising market competition, counterparty risks, project delays, IT application malfunction, and data privacy.

The Company also closely monitors regulatory risks that can expose the Company to potential material loss, financial loss or legal penalties due to non-compliance with applicable laws, regulatory requirements, and other obligations, including contractual obligations. The Company is maintaining close coordination with various government agencies and other parties to have the opportunity to respond proactively in various situations to avoid or minimize potential risk exposure.

(B) Description of Property

Petron operates an extensive network of terminals, depots, and LPG and aviation plants which are located in Luzon, Visayas and Mindanao. As of December 31, 2022, its bulk fuel terminals were in Limay, Bataan; Mabini, Batangas; Mandaue City, Cebu; Poro Point, San Fernando, La Union; Navotas, Metro Manila; Rosario, Cavite; Puerto Princesa, Palawan; Culasi, Roxas City; Lapuz, Iloilo City; Bacolod City, Negros Occidental; Ormoc City, Leyte; Anibong, Tacloban City; Isabel, Leyte; Tagoloan, Misamis Oriental; Sasa, Davao City; Iligan City, Lanao del Norte; Jimenez, Misamis Occidental; Bawing, General Santos City; Nasipit, Agusan del Norte; and Zamboanga City. It has third party facilities at Harbor Center, Tondo, Manila; Limay, Bataan; Subic, Zambales, and PHIVIDEC, Tagoloan, Misamis Oriental. Its sales offices are located in Calapan, Oriental Mindoro; San Jose in Occidental Mindoro; Odiongan, Romblon; Pasacao, Camarines Sur; Mobo, Masbate; Amlan, Negros Oriental; and Tagbilaran City, Bohol. Petron has LPG bulk refilling plants in Ugong, Pasig City; San Fernando, Pampanga; San Pablo City, Laguna; and Legazpi City, Albay. Among its other installations are the aviation depots at JOCASP-NAIA, Pasay City and Mactan, Cebu; airport installations at Laoag City; Clark, Pampanga; Puerto Princesa, Palawan; Iloilo City; Kalibo, Aklan; Caticlan, Aklan; Panglao, Bohol; Davao City; Zamboanga City; and Laguindingan, Misamis Oriental; an additive plant in Subic, Zambales, a grease plant in Pandacan Manila, and a lube oil blending plant in Harbor Center, Tondo, Manila.

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan, with a crude distillation capacity of 180,000 barrels per day. In addition to major process units, the refinery also has several crude and product storage tanks, and its own piers and other berthing facilities, one of which can accommodate very large crude carriers.

The Company entered into commercial leases with the PNOC for parcels of land occupied by the Petron Bataan Refinery, depots, terminals and some of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. Expenses relating to the PNOC leases amounted to ₱311.4 million in 2021.

On October 20, 2017, the Company filed an action against the PNOC in respect of the leased properties to preserve its rights under the lease agreements. On December 11, 2017, the trial court granted the Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Company from possession of the subject properties until the case is decided. The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019.

The Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Company of all such properties, and (iii) the payment by the Company to PNOC of the amount of P142 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Company all lease payments the latter had paid to PNOC since 1993. Following the trial court's denial of their separate motions for reconsideration, both PNOC and the Company filed their notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. The Company filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of PNOC and the Company and affirmed the resolution of the trial court as described above. The Court of Appeals upheld the Company's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate the Company's lease thereby depriving the Company a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that the Company paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, the Company filed its motion for reconsideration insofar as the decision dismissed the Company's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. In a resolution promulgated on October 6, 2022, the Court of Appeals denied the respective motions for reconsideration of Petron and PNOC. In consideration of the possible delay in the resolution of the case if Petron were to proceed with the filing of a petition for review with the Supreme Court and the decision in favor of Petron on the rescission of the Deeds of Conveyance and the reconveyance to it of the properties that has been affirmed by the trial court and the Court of Appeals, Petron Management has decided to no longer pursue a petition for review with the Supreme Court. In December 2022, PNOC file a petition for review with the Supreme Court. The Company awaits orders from the court.

Petron anticipates that it may lease desirable lots for development as service stations in the next 12 months.

(C) Contingent Liabilities

Petron is involved in certain cases that may trigger a direct or contingent financial obligation, the material of which is discussed below based on information available to the Company as of the date of this report:

1. **Guimaras Oil Spill**

   a. **In the Matter of the Sinking of the MT Solar I**
   SBMI No. 936-06
   Special Board of Marine Inquiry

   Background: Petron hired on a "single voyage basis" the vessel MT Solar I owned by Sunshine Maritime Development Corporation ("SMDC") for the transport of industrial fuel oil from the Petron Bataan Refinery to Zamboanga. Petron, as a shipper of the cargo, conducted inspection of the vessel MT Solar I and likewise, relied on the documents presented by SMDC as carrier. Petron also relied on the implied warranties of SMDC as a carrier with respect to the seaworthiness of the vessel MT Solar I and other statutory/trading certificates issued by MARINA and other pertinent government agencies.

   SMDC, taking into consideration the vessel's trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis and relying on the declaration of SMDC, Petron loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.

   In September 2006, the Special Board of Marine Inquiry ("SBMI") was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

   On November 21, 2006, Petron filed a memorandum of appeal with the DOTr (then "Department Transportation and Communication ("DOTC")), elevating the disputed ruling of the SBMI for review.

   Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

   Relief sought: Reversal of the SBMI's initial finding that Petron was liable for allegedly overloading the vessel.

   Status: The appeal to the DOTr of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of the date of this report.

   b. Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et a.
   Civil Case No. 09-0394;

RTC Br. 65, Jordan, Guimaras

Oliver S. Chavez, et al. v. SMDC, Petron, et al.
Civil Case No. 09-0395;
RTC Br. 65, Jordan, Guimaras

Background: These are complaints for damages filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment from the defendants of their claims for damages arising from the oil spill due to the sinking of MT Solar 1 on August 11, 2006. Total claims for both cases amount to ₽291.9 million (₽286.4 million and ₽5.5 m). The reception of plaintiffs' evidence is on-going.

In the Arsenal case, respondents filed a motion to hear affirmative defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. The respondents went to the CA on a petition for *certiorari*. On May 29, 2014, the CA rendered a decision directing the plaintiffs to file their respective affidavits substantiating their claims of indigency. The plaintiffs filed a motion for partial reconsideration of the decision which was denied by the CA on January 30, 2015.
In the Chavez case, the respondents likewise filed the same motion based on the same grounds. The lower court also denied the motion so the respondents went to the CA on a petition for *certiorari*. The CA dismissed the petition for failing to attach the necessary pleadings and orders.

Status: Both the Arsenal and Chavez cases have been remanded to and are now pending with the trial courts. In the course of plaintiffs' presentation of evidence, the plaintiffs moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering the Company to file its comment on plaintiffs' petition within 10 days. The Company filed a motion for reconsideration of the said resolution, which remains pending as of the date of this report. In the meantime, proceedings before the trial court continue as of the date of this report.

Other cases involving Petron are discussed in its audited financial statements.

PART II – SECURITIES OF THE REGISTRANA) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information and Voting Rights of Shares

The Company's common and Series 3 preferred shares are traded at the PSE.

As of March 31, 2023, the Company had 144,306 common stockholders. As of December 31, 2022, the total number of common stockholders of the Company was 144,388.

Common Shares

The price of the common shares of the Company as of March 31, 2023 was ₱3.35 per share. The price of the common shares of the Company on December 29, 2022, the last trading day of 2022, was ₱2.40 per share. And the price of the common shares of the Company on December 31, 2021, the last trading day of 2021, was ₱3.17 per share.

The high and low prices of the common shares for each quarter of the last two (2) fiscal years and for the period ended March 20, 2023 (the record date for the Company's 2023 annual stockholders' meeting)are indicated in the table below:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2023				
For period ended March 20, 2023	3.73	March 23	2.37	January 3
2022				
1st Quarter	3.94	March 8	3.17	January 3
2nd Quarter	3.52	May 4	3.01	June 24
3rd Quarter	3.11	August 17 & 30	2.55	September 30
4th Quarter	2.58	October 5	2.27	December 9
2021				
1st Quarter	3.98	January 4	3.00	March 23 & 24
2nd Quarter	3.50	May 4	2.93	May 27
3rd Quarter	3.64	July 8	3.03	August 31
4th Quarter	4.02	October 20	3.11	December 1

<u>Preferred Shares</u>

Series 2 Preferred Shares issued in 2014 ("Series 2 Shares")

On November 3, 2014, Petron issued and listed on the PSE 10 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱1,000.00 per share. The preferred shares issue, which reached a total of ₱10 billion, was composed of Series 2A Preferred Shares amounting to ₱7.12 billion and the Series 2B Preferred Shares amounting to ₱2.88 billion.

The Series 2A Preferred Shares were redeemed by the Company on November 4, 2019.

The Series 2B Preferred Shares were redeemed by the Company on November 3, 2021.

Series 3 Preferred Shares issued in 2014 ("Series 3 Shares")

On June 25, 2019, Petron issued and listed on the PSE 20 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱1,000.00 per share. The preferred shares issue, which reached a total of ₱20 billion, was composed of Series 3A Preferred Shares amounting to ₱13.403 billion and the Series 3B Preferred Shares amounting to ₱6.597 billion.

The Series 3A Preferred Shares may be redeemed by the Company starting on 5.5th anniversary form the listing date. The Series 3B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date.

<u>Series 3A Preferred Shares</u>

The price of the Series 3A Preferred Shares as of March 31, 2023 was ₱938.00 per share. The price of the Series 3A Preferred Shares on December 29, 2022, the last trading day of 2022, was ₱1,015.00 per share. And the price of the Series 3A Preferred Shares on December 31, 2021, the last trading day of 2021 the shares were traded was ₱1,000.00 per share.

The high and low prices of the Series 3A preferred shares for each quarter of the last two (2) fiscal years and for the period ended March 20, 2023 (the record date of the 2023 annual stockholders' meeting) are indicated in the table below:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2023				
For period ended March 20, 2023	1,030.00	January 5 and February 2	980.00	March 24
2022				
1st Quarter	1,080.00	March 14 & 29	1,040.00	January 12 & 25
2nd Quarter	1,070.00	April 1, 4, 6, 12, 18 & 29; May 2, 10 & 17	1,045.00	June 29
3rd Quarter	1,058.00	August 4 & 18	980.00	September 29
4th Quarter	1,015.00	November 15; December 13 & 29	980.00	November 4
2021				
1st Quarter	1,019.00	March 8 & 22	1,061.00	March 19
2nd Quarter	1,119.00	April 22	1,068.00	April 6 & 14
3rd Quarter	1,135.00	September 30	1,045.00	September 16
4th Quarter	1,045.00	October 22	1,000.00	December 31

<u>Series 3B Preferred Shares</u>

The price of the Series 3B Preferred Shares as of March 31, 2023 was ₱1,010.00 per share. The price of the Series 3B Preferred Shares on December 29, 2022, the last trading day of 2022, was ₱1,030.00 per share. And the price of the Series 3B Preferred Shares on December 31, 2021, the last trading day of 2021, was ₱1,119.00 per share.

The high and low prices of the Series 3B preferred shares for each quarter of the last two (2) fiscal years and for the period ended March 20, 2023 (the record date for the Company's 2023 annual stockholders' meeting) are indicated in the table below:

	Highest Close		Lowest Close	
Period	Price (in Peso)	Date	Price (in Peso)	Date
2023				
For period ended March 20, 2023	1,048.00	January 5	1,008.00	March 21
2022				
1st Quarter	1,150.00	March 30	1,052.00	January 31
2nd Quarter	1,117.00	April 29	1,060.00	June 24
3rd Quarter	1,100.00	August 22	1,029.00	August 30
4th Quarter	1,051.00	September 13, 19 & 20	1,000.00	October 18 November 28

2021				
1st Quarter	1,150.00	March 30	1,080.00	January 6 & 7
2nd Quarter	1,159.00	March 25 & June 25	1,120.00	June 29
3rd Quarter	1,170.00	July 9	1,102.00	July 29 & 30
4th Quarter	1,119.00	November 9	1,070.00	December 3

(2) Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of March 31, 2023 are as follows:

Common Shares

RANK	STOCKHOLDER NAME	Common	TOTAL SHARES	% OF O/S
1	SEA REFINERY CORPORATION	4,696,885,564	4,696,885,564	50.099554 %
2	PCD NOMINEE CORP. (FILIPINO)	1,870,633,532	1,870,633,532	19.953202 %
3	SAN MIGUEL CORPORATION	1,702,870,560	1,702,870,560	18.163750 %
4	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	459,156,097	459,156,097	4.897610 %
5	PCD NOMINEE CORP. (NON-FILIPINO)	197,193,072	197,193,072	2.103369 %
6	F. YAP SECURITIES INC.	15,704,918	15,704,918	0.167517 %
7	ERNESTO CHUA CHIACO &/OR MARGARET SY CHUA CHIACO	6,000,000	6,000,000	0.063999 %
8	SYSMART CORP.	4,000,000	4,000,000	0.042666 %
9	MARGARET S. CHUACHIACO	3,900,000	3,900,000	0.041600 %
10	MARY FELICCI B. ONGCHUAN	2,950,100	2,950,100	0.031467 %
11	GENEVIEVE S. CHUACHIACO	2,735,000	2,735,000	0.029173 %
12	ERNESSON S. CHUACHIACO	2,732,000	2,732,000	0.029141 %
13	Q - TECH ALLIANCE HOLDINGS, INC.	2,648,500	2,648,500	0.028250 %
14	GENEVIEVE S. CHUA CHIACO	2,490,000	2,490,000	0.026560 %
15	BENEDICT CHUA CHIACO	2,365,000	2,365,000	0.025226 %
16	ANTHONY CHUA CHIACO	2,008,000	2,008,000	0.021418 %
17	SHAHRAD RAHMANIFARD	2,000,000	2,000,000	0.021333 %
18	MANUEL AWITEN DY	2,000,000	2,000,000	0.021333 %
19	KRISTINE CHUA CHIACO	1,956,000	1,956,000	0.020864 %
20	CHING HAI GO &/OR MARTINA GO	1,500,000	1,500,000	0.016000 %

Series 3A Preferred Shares

RANK	STOCKHOLDER NAME	Preferred 3-A	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	13,339,195	13,339,195	99.523950 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	54,905	54,905	0.409647 %
3	FELIX BELLEN CHAVEZ OR AIDA TANG LEE SAY CHAVEZ OR IRENE TANG LEE SAY CHAVEZ	3,500	3,500	0.026114 %
4	MILA LEONINA DIAZ JUSTINIANO	2,000	2,000	0.014922 %
5	LUZ DELA CRUZ CANLAPAN	1,500	1,500	0.011192 %
6	CAROLINA N. DIONISIO	1,000	1,000	0.007461 %
7	ANA UY GAN OR ALBERT DAVID UY GAN, EDWIN FERDINAND UY GAN OR PHILIP BENJAMIN UY GAN	500	500	0.003731 %
8	ALMA FLORENCE A. LOGRONIO	300	300	0.002238 %
9	NSJS REALTY & DEVELOPMENT CORPORATION	50	50	0.000373 %
10	ENRICO DELA LLANA YUSINGCO	50	50	0.000373 %
		13,403,000	13,403,000	100.000000 %

TOTAL NO. OF SHARES : 13,403,000
TOTAL NO. OF DISTINCT STOCKHOLDERS : 10
TOTAL NO. OF ACCOUNTS : 10

Series 3B Preferred Shares

RANK	STOCKHOLDER NAME	Preferred 3-B	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	6,522,345	6,522,345	98.868349 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	46,355	46,355	0.702668 %
3	CAN ASIA INC RETIREMENT PLAN	5,000	5,000	0.075792 %
4	SMHC MULTI-EMPLOYER RETIREMENT PLAN	5,000	5,000	0.075792 %
5	DISTILERIA BAGO INCORPORATED RETIREMENT PLAN	5,000	5,000	0.075792 %
6	JOIE TINSAY &/OR IRENE TINSAY	4,500	4,500	0.068213 %
7	G. D. TAN & CO. INC.	2,000	2,000	0.030317 %
8	ROMUALDO ESTACIO FRANCO OR VIRGINIA M. FRANCO	1,000	1,000	0.015158 %
9	AGNES LOGRONIO BANIQUED	1,000	1,000	0.015158 %
10	FELIX BELLEN CHAVEZ OR AIDA TANG LEE SAY CHAVEZ OR IRENE TANG LEE SAY CHAVEZ	1,000	1,000	0.015158 %
11	ANTONIO M. OSTREA	500	500	0.007579 %
12	ENRIQUE LL YUSINGCO	500	500	0.007579 %
13	CONCHITA PEREZ JAMORA	500	500	0.007579 %
14	ENRIQUE NOEL L YUSINGCO	500	500	0.007579 %
15	ENRIQUE MIGUEL L YUSINGCO	500	500	0.007579 %
16	MA. TERESA L YUSINGCO	500	500	0.007579 %
17	ANGELO DE GUZMAN MACABUHAY OR MARITESS SIGUA MACABUHAY	400	400	0.006063 %
18	MICHELLE MARIE Y. SAN JUAN	100	100	0.001516 %
19	JOSE MANUEL R. SAN JUAN	100	100	0.001516 %
20	HENRY P. YUSINGCO IV	100	100	0.001516 %
21	MYRA P. VILLANUEVA	60	60	0.000910 %
22	MILAGROS P. VILLANUEVA	10	10	0.000152 %
23	MYRNA P. VILLANUEVA	10	10	0.000152 %
24	MARIETTA V. CABREZA	10	10	0.000152 %
25	JUAN CARLOS V. CABREZA	10	10	0.000152 %
		6,597,000	6,597,000	100.000000 %

TOTAL NO. OF SHARES : 6,597,000
TOTAL NO. OF DISTINCT STOCKHOLDERS : 25
TOTAL NO. OF ACCOUNTS : 25

(3) Dividends

It is the policy of the Company under its Corporate Governance Manual to declare dividends when its retained earnings exceed 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board, (b) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent and such consent has not been secured, or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

On November 3, 2014, the Company issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The dividend on the Series 2A Preferred Shares was at the fixed rate of 6.30% per annum and on the Series 2B Preferred Shares at the fixed rate of 6.8583% per annum, each as calculated based on the offer price of ₽1,000 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 2 Shares in February 2015 since their listing in November 2014. The Series 2A Preferred Shares and the Series 2B Preferred Shares were redeemed on November 4, 2019 and November 3, 2021, respectively.

On June 25, 2019, the Company issued 13,403,000 Series 3A Preferred Shares and 6,596,900 Series 3B Preferred Shares. The dividend on the Series 3A Preferred Shares is at the fixed rate of 6.8713% per annum and on the Series 3B Preferred Shares at the fixed rate of 7.1383% per annum, each as calculated based on the offer price of ₽1,000.00 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 3 Shares since their listing in June 2019.

Dividend Declarations and Payments

2023

On March 6, 2023, the Board of Directors approved cash dividends of ₱0.10 per share to the common shareholders, with a record date of March 20, 2022 and a pay-out date of April 4, 2023.

2022

On August 1, 2022, the Board of Directors approved cash dividends of (i) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the third quarter of 2022, with a record date of August 31, 2022 and a pay-out date of September 26, 2022 (with September 25, 2022 falling on a Sunday); and (ii) ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the third quarter of 2022, with a record date of August 31, 2022 and a pay-out date of September 26, 2022 (with September 25, 2022 falling on a Sunday).

On November 8, 2022, the Board of Directors approved cash dividends of (i) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the fourth quarter of 2022, with a record date of November 29, 2022 and a pay-out date of December 26, 2022 (with December 25, 2022 falling on a Sunday); (ii) ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the fourth quarter of 2022, with a record date of November 29, 2022 and a pay-out date of December 26, 2022 (with December 25, 2022 falling on a Sunday); (iii) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the first quarter of 2023, with a record date of

March 2, 2023 and a pay-out date of March 27, 2023 (with March 25, 2023 falling on a Saturday); and (iv) ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the first quarter of 2023, with a record date of March 27, 2023 (with March 25, 2023 falling on a Saturday).

2021

On March 9, 2021, the Board of Directors approved cash dividends of (i) ₽17.14575 per Series 2B Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of April 7, 2021 and a pay-out date of May 3, 2021; (ii) ₽17.17825 per Series 3A Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021; and (iii) ₽17.84575 per Series 3B Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021.

On May 4, 2021, the Board of Directors approved cash dividends of (i) ₽17.14575 per Series 2B Preferred Share to shareholders of such shares for the third quarter of 2021, with a record date of July 8, 2021 and a pay-out date of August 3, 2021; (ii) ₽17.17825 per Series 3A Preferred Share to shareholders of such shares for the third quarter of 2021, with a record date of September 2, 2021 and a pay-out date of September 27, 2021 (with September 25, 2021 falling on a Saturday); and (ii9) ₽17.84575 per Series 3B Preferred Share to shareholders of such shares for the third quarter of 2021, with a record date of September 2, 2021 and a pay-out date of September 27, 2021 (with September 25, 2021 falling on a Saturday).

On August 3, 2021, the Board of Directors approved cash dividends of (i) ₽17.14575 per Series 2B Preferred Share to shareholders of such shares for the fourth quarter of 2021, with a record date of October 7, 2021 and a pay-out date of November 3, 2021; (ii) ₽17.17825 per Series 3A Preferred Share to shareholders of such shares for fourth quarter of 2021, with a record date of November 29, 2021 and a pay-out date of December 27, 2021 (with December 25, 2021 being a holiday and falling on a Saturday); and (ii) ₽17.84575 per Series 3B Preferred Share to shareholders of such shares for the fourth quarter of 2021, with a record date of November 29, 2021 and a pay-out date of December 27, 2021 (with December 25, 2021 being a holiday and falling on a Saturday).

On November 9, 2021, the Board of Directors approved cash dividends of (i) ₽17.17825 per Series 3A Preferred Share to shareholders of such shares for the fourth quarter of 2021 and the first quarter of 2022, with a record date of March 3, 2022 and June 3, 2022, respectively; and a pay-out date of March 25, 2022 and June 27, 2022 (with June 25, 2022 falling on a Saturday); and (ii) ₽17.84575 per Series 3B Preferred Share to shareholders of such shares for the for the fourth quarter of 2021 and the first quarter of 2022, with a record date of March 3, 2022 and June 3, 2022, respectively; and a pay-out date of March 25, 2022 and June 27, 2022 (with June 25, 2022 falling on a Saturday).

<u>Distributions</u>

Under the terms and conditions of the undated unsubordinated capital securities issued by the Company on January 19, 2018 and April 19, 2021 (collectively, the “Capital Securities”), more particularly described below in *“Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction,* the Company cannot declare dividends on any Junior Securities (as defined thereunder), which include any class of shares of the Company, in case the payment of all distributions scheduled to be made on the Capital Securities is not made in full by reason of the Company deferring such distributions in accordance with the terms of the Capital Securities.

(4) Recent Sales of Unregistered or Exempt Including Recent Issuances of Securities Constituting an Exempt Transaction

Under the Securities and Regulation Code (the "Code"), securities are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The securities discussed below were offered and/or sold for the past three (3) years (from 2020) in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the offer and sale of the subject securities qualified as exempt transactions pursuant to Sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualified as an exempt transaction under the Code was not required to be, and had not been, obtained.

The securities discussed below were not registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

<u>US$500 Million Undated Unsubordinated Capital Securitie</u>.

a. On January 19, 2018, the Company issued US$500 million undated unsubordinated capital securities (the "January 2018 Issuance").

b. The joint lead managers were Australia and New Zealand Banking Group Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation, Singapore Branch, Standard Chartered Bank, and UBS AG, Singapore Branch

c. The offer price for the January 2018 Issuance was at 100%.

d. As the capital securities were offered to qualified buyers in the Philippines, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 Implementing Rules and Regulations of the Securities Regulation Code (the "2015 SRC Rules").

e. The capital securities were listed with the Singapore Exchange Securities Trading Limited on January 22, 2018.

f. Pursuant to a tender offer for purchase made by the Company in January 2023, a portion of the above securities with an aggregate principal amount of US$22,470,000 was purchased by the Company thereby leaving securities with a total principal amount of US$477,530,000.

<u>US Dollar Redeemable Perpetual Securities</u>

a. On November 27, 2019, June 22, 2020, and August 10, 2020, the Company issued redeemable perpetual securities (the "Redeemable Perpetual Securities") to SMC in the amounts of US$6 million, US$130 million, and US$100 million, respectively.

b. As the Redeemable Perpetual Securities were offered only SMC, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 SRC rules

<u>US$550 Million Undated Unsubordinated Capital Securities</u>

a. On April 19, 2021, the Company issued US$550 million undated unsubordinated capital securities (the "2021 Capital Securities").

b. The sole global coordinator for the transaction was The Hongkong and Shanghai Banking Corporation Limited and the joint lead managers were DBS Bank Ltd., HSBC, MUFG Securities Asia Limited, SMBC Nikko Capital Markets Limited, Standard Chartered Bank and UBS AG Singapore Branch.

c. The offer price for the 2021 Capital Securities was at 100%.

d. As the 2021 Capital Securities were offered to qualified buyers in the Philippines, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 SRC rules.

e. The capital securities were listed with the Singapore Exchange Securities Trading Limited on April 20, 2021.

(B) Description of Petron's Shares

The Company has an authorized capital stock of P10 billion divided into 9,375,104,497 common shares and 624,895,503 preferred shares, with a par value of P1 each. The outstanding shares of the Company is comprised of 9,375,104,497 common shares, 13,403,000 Series 3A Preferred Shares, and 6,597,000 Series 3B Preferred Shares. The Company has 90,000,000 treasury shares.

The Series 2 Preferred Shares, with an aggregate issue value of ₱10 billion, were offered during the period October 20-24, 2014 pursuant to the order of registration and the permit to sell issued by the SEC on October 17, 2014. The Series 2 Preferred Shares were issued and listed on the PSE on November 3, 2014. The Series 2A Preferred Shares were redeemed by the Company on November 4, 2019. The Series 2A Preferred Shares and the Series 2B Preferred Shares were redeemed by the Company on November 4, 2019 and November 3, 2021, respectively.

The Series 3 Preferred Shares, with an aggregate issue value of P20 billion, were offered during the period June 3-18, 2019 pursuant to the order of registration and the permit to sell issued by the SEC on May 31, 2019 and issued out of the treasury shares of the Company. The Series 3 Preferred Shares were issued and listed on the PSE on June 25, 2019.

The common shares of the Company are voting shares while preferred shares are generally non-voting, except in cases provided by law.

(C) Stock Ownership Plan

Petron currently does not have a stock ownership plan or program. In 1994, when Petron's initial public offering was undertaken, a special secondary sale of Petron's shares was offered to its employees. The entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's executive officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this stock ownership plan. Preparatory to the listing of the Company's preferred shares, availment of said shares was offered to employees from February 15 to 19, 2010.

(D) Public Ownership

Based on the report provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 26.72% of the outstanding common shares of the Company was owned by the public as of December 31, 2022 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annexes A and B are the public ownership reports of the Company as of December 31, 2022 and March 31, 2023, respectively.

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"Part I-I - Management's Discussion and Analysis of Financial Position
and Financial Performance" follows on next page]

PART I-I - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Financial Performance

2022 vs 2021

2022 was marked with a very high volatility in oil prices as the global oil supply was disrupted by the invasion of Ukraine by Russia in February. Amid economic sanctions imposed on Russia and OPEC's efforts to manage production, demand continued to grow from the previous year. While China enforced Zero-Tolerance policy against COVID for most of the year, many countries exerted all efforts to achieve full recovery from the pandemic. Despite the sharp decline in prices in the second half, levels remained elevated compared to 2021. Prices of finished petroleum products also rose bringing the regional refining cracks to all-time highs during the year. With this backdrop, the Company ended the year with a consolidated net income of **₱ 6.7 billion**, 9% higher than last year.

Consolidated Sales volume grew by 37% to **112.81 million barrels (MMB)**, 30.57 MMB more than the previous year. Commercial sales exhibited notable recovery particularly in the industrial and aviation sectors with the continued increase in domestic travels and business activities. Likewise, the combined retail sales of Philippines and Malaysia improved by 26%. PSTPL trading volume more than doubled while sales of polypropylene substantially increased with the resumption of its plant's operation in 2022.

	Years ended December 31		Horizontal Analysis Favorable (Unfavorable)		Vertical Analysis	
	2022	2021	Amount	%	2022	2021
		(in Millions)				
Sales	**857,638**	438,057	419,581	96%	100%	100%
Cost of Goods Sold	**(823,788)**	(407,558)	(416,230)	(102%)	96%	93%
Gross Profit	**33,850**	30,499	3,351	11%	4%	7%
Selling and Administrative Expenses	**(16,175)**	(14,557)	(1,618)	(11%)	2%	3%
Other Operating Income	**1,538**	1,273	265	21%	0%	0%
Interest Expense and Other Financing Charges	**(13,094)**	(10,008)	(3,086)	(31%)	2%	2%
Interest Income	**898**	564	334	59%	0%	0%
Share in Net Earnings of an Associate	**63**	8	55	high	0%	0%
Other Income (Expense) - net	**1,021**	(482)	1,503	high	0%	0%
Income before Income Tax	**8,101**	7,297	804	11%	1%	2%
Income Tax Expense	**(1,404)**	(1,161)	(243)	(21%)	0%	0%
Net Income	**6,697**	6,136	561	9%	1%	1%
Attributable to Equity Holders of the Parent Company	**5,727**	5,369	358	7%	1%	1%
Attributable to Non-controlling Interests	**970**	767	203	26%	0%	0%
	6,697	6,136	561	9%	1%	1%
Sales Volume in million barrels	**112,812**	82,241	30,571	37%		

The following contributed to the Group's improved performance during the year:

Net sales escalated to **₱ 857.64 billion** from ₱ 438.06 billion in previous year driven by the 37% increase in sales volume and record high prices that prevailed in 2022.

Cost of Goods Sold (CGS) more than doubled to **₱ 823.79 billion** from ₱ 407.56 billion in the previous year brought about by the spike in the price of benchmark Dubai crude oil averaging US$96/barrel in 2022 versus US$69/barrel in 2021.

Gross profit improved by 11% from ₱ 30.50 billion to **₱ 33.85 billion** largely attributed to volume growth and sustained strength in product cracks but tempered by higher crude and finished product importations costs.

Selling and Administrative Expenses increased to **₱ 16.18 billion**, 11% or ₱ 1.62 billion more than the previous year traced to higher maintenance and repairs related to service stations, terminals and information technology, outsourced services, advertising expenses and employee costs.

Other Operating Income was at **₱ 1.54 billion**, higher by 21% compared to last year's ₱ 1.27 billion due to higher rental income.

Interest Expense and Other Financing Charges was up by **31%** at **₱ 13.09 billion** from ₱ 10.00 billion in 2021 due to higher borrowing levels due to the increase in working capital as well as higher average interest rates.

Interest Income increased by 59% to **₱ 898 million** from ₱ 564 million on account of higher average placements and interest rates versus previous year.

Share in Net Earnings of an Associate was at **₱ 63 million** versus ₱ 8 million from previous year, representing the Company's share in net income of Petrogen Insurance Corporation.

Other Income - net amounted to **₱ 1.02 billion** in 2022 as against ₱ 482 million Other Expense – net in 2021 mainly from unrealized gains from mark-to-market valuation of commodity hedges.

Income tax expense was at **₱ 1.40 billion**, 21% higher than last year's ₱ 1.16 billion on account of higher pre-tax income, expired Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carryover (NOLCO).

2021 vs 2020

As global vaccination rate continued to improve, pandemic restrictions were relaxed and more economic activities were resumed. This supported the continued recovery in global demand towards its pre-pandemic level. This rebound was complemented by the OPEC's managed approach in increasing crude supply back in the market which allowed the oil sector to regain momentum and enjoy improved margins. With this as the backdrop, Petron Corporation's consolidated net income for 2021 reached **₱6.14 billion**, a turnaround from ₱ 11.41 billion net loss suffered in the previous year.

Consolidated Sales volume grew by 5% to **82.24 million barrels (MMB)** from 78.58 MMB in prior year. Through the Company's volume-generating programs, retail volumes in the Philippines managed to grow despite granular lockdowns. Petrochemical sales and PSTPL trading volume were also up. However, growth in commercial sales remained subdued largely due to the slowdown in the aviation industry.

	Year ended December 31		Horizontal Analysis Favorable (Unfavorable)		Vertical Analysis	
	2021	2020	Amount	%	2021	2020
	(in Millions)					
Sales	**438,057**	286,033	152,024	53%	100%	100%
Cost of Goods Sold	**(407,558)**	(277,320)	(130,238)	(47%)	93%	97%
Gross Profit (Loss)	**30,499**	8,713	21,786	high	7%	3%
Selling and Administrative Expenses	**(14,557)**	(14,389)	(168)	(1%)	3%	5%
Other Operating Income	**1,273**	1,047	226	22%	0%	0%
Interest Expense and Other Financing Charges	**(10,008)**	(11,313)	1,305	12%	2%	4%
Interest Income	**564**	780	(216)	(28%)	0%	0%
Share in Net Earnings of an Associate	**8**	-	8	high	0%	0%
Other Expense - net	**(482)**	(1,049)	567	54%	0%	0%
Income before Income Tax	**7,297**	(16,211)	23,508	high	2%	6%
Income Tax Benefit (Expense)	**(1,161)**	4,798	(5,959)	(high)	0%	2%
Net Income (Loss)	**6,136**	(11,413)	17,549	high	1%	4%
Attributable to Equity Holders of the Parent Company	**5,369**	(11,380)	16,749	high	1%	4%
Attributable to Non-controlling Interests	**767**	(33)	800	high	0%	0%
	6,136	(11,413)	17,549	high	1%	4%
Sales Volume in million barrels	**82,241**	78,582	3,659	5%		

Net Sales more than doubled to **₱ 438.06 billion** from ₱ 286.03 billion in prior year traced to the steady rise in regional reference MOPS prices during the year.

Cost of Goods Sold (CGS) likewise surged by 47% to **₱ 407.56 billion** from ₱ 277.32 billion mainly due to higher cost per liter. Benchmark crude Dubai breached the $80/bbl-mark in the 4th quarter and averaged US$69/bbl for the year, up by 64% from US$42/bbl average in 2020.

Gross profit climbed up to **₱ 30.50 billion** traced to the absence of inventory losses and improved refining cracks.

Selling and Administrative Expenses at **₱ 14.56** billion was the same level as previous year. Savings on terminalling and storage expenses, outsourced services and increase in rent income were offset by higher maintenance and repairs related to service stations, depot and information technology as well as higher LPG cylinder purchases.

Other Operating Income rose by 22% to **₱ 1.27 billion** owing to higher rental income.

Interest Expense and Other Financing Charges declined by 12% to **₱ 10.01 billion** largely due to reduced borrowing level and interest rates.

Interest Income dropped to **₱ 564 million** from 780 million the previous year traced to lower average placements and interest rates.

Share in Net Earnings of an Associate amounted to **₱ 8 million** representing share in earnings of Petrogen Insurance Corporation (PIC) which became an associate of the Parent Company starting February 4, 2021. Prior to the said date, PIC was a wholly owned subsidiary of the Parent Company.

Other Expense - net declined by 54% to **₱ 482 million** traced mainly to lower unrealized losses on commodity hedges versus 2020.

Income tax expense amounted to **₱ 1.16 billion** in contrast to last year's ₱ 4.80 billion tax benefit from huge loss before tax.

2020 vs. 2019

The year 2020 was marked with the adverse impact of the COVID-19 pandemic to the global economy. The unprecedented destruction in worldwide fuel demand caused oil prices to crash at record-low levels in the second quarter. The lockdowns implemented in most parts of the Philippines and Malaysia pulled down sales volume while the historic slump in prices resulted in substantial inventory losses. Despite the moderate recovery in the second semester, Petron ended the year with a consolidated net loss of P11.4 billion, a reversal from its 2019 net income of P2.3 billion. Aside from the impact of the volume contraction and inventory loss, the prevailing weak refining cracks also continued to challenge the Company's financial performance.

Consolidated Sales volume dropped by 27% to **78.58 million barrels (MMB)**, from 106.96 MMB in previous year (PY) primarily due to reduced economic activities and travel restrictions from worldwide lockdowns.

	Years ended December 31		Horizontal Analysis Favorable (Unfavorable)		Vertical Analysis	
	2020	2019	Amount	%	2020	2019
	(in Millions)					
Sales	**286,033**	514,362	(228,329)	(44%)	100%	100%
Cost of Sales	**(277,320)**	(483,855)	206,535	43%	97%	94%
Gross Profit	**8,713**	30,507	(21,794)	(71%)	3%	6%
Selling and Administrative Expenses	**(14,389)**	(15,815)	1,426	9%	5%	3%
Other Operating Income	**1,047**	1,507	(460)	(31%)	0%	0%
Interest Expense and Other Financing Charges	**(11,313)**	(13,490)	2,177	16%	4%	3%
Interest Income	**780**	1,340	(560)	(42%)	0%	0%
Other Expense - net	**(1,049)**	(312)	(737)	(high)	0%	0%
Income before Income Tax	**(16,211)**	3,737	(19,948)	(high)	6%	1%
Income Tax Benefit (Expense)	**4,798**	(1,434)	6,232	high	2%	0%
Net Income (Loss)	**(11,413)**	2,303	(13,716)	(high)	4%	0%
Attributable to Equity Holders of the Parent Company	**(11,380)**	1,701	(13,081)	(high)	4%	0%
Attributable to Non-controlling Interests	**(33)**	602	(635)	(high)	0%	0%
	(11,413)	2,303	(13,716)	(high)	4%	0%
Sales Volume in million barrels	**78,582**	106,959	(28,377)	(27%)		

Net sales dropped by 44% to **₱ 286.03 billion** from **₱ 514.36 billion** in 2019 due to reduced volume and lower average selling price, compounded by the impact of ₱ 2.18 appreciation of the peso against the US dollar, partly offset by incremental excise taxes with the implementation of the last tranche of the TRAIN law.

Cost of Goods Sold declined to **₱ 277.32** billion from PY's ₱ 483.86 billion traced to lower sales volume and average cost per liter as benchmark crude Dubai plunged from an average of US$64/bbl in 2019 to US$42/bbl, partly offset by higher excise taxes.

Gross profit fell to ₱ 8.71 billion from the ₱ 30.51 billion in 2019 largely on account of the volume drop, inventory losses and product cracks narrowing, which partly mitigated by improved marketing margins.

Continuous cost reduction measures led to the 9% dip in **Selling and Administrative Expenses** to **₱ 14.40 billion** compared to previous year's ₱ 15.82 billion. The savings mainly came from outsourced services, advertising and promotional expenses, service station & depot maintenance & repairs, and employee costs.

Other Operating Income dropped to **₱ 1.05 billion** from ₱ 1.51 billion in previous year due to decrease in rent income.

Interest Expense and Other Financing Charges was also down by 16% from ₱ 13.49 billion to **₱ 11.31 billion** attributed to the decline in interest expense at the back of lower average borrowing rates.

Interest Income declined by 42% to ₱ 780 million from lower interest rates versus previous year.

Other Expense – net rose to ₱ 1.05 billion owing to higher marked-to-market losses on commodity hedges.

Income tax benefit amounted to **₱ 4.80 billion** owing to the loss before tax position, as against the ₱ 1.43 billion income tax expense in the previous year.

Financial Position

2022 vs 2021

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2022	2021	Amount	%	**2022**	2021
Cash and cash equivalents	**37,183**	36,406	777	2%	**8%**	9%
Financial assets at fair value	**1,753**	1,005	748	74%	**0%**	0%
Trade and other receivables - net	**81,979**	51,745	30,234	58%	**18%**	13%
Inventories	**85,347**	67,684	17,663	26%	**19%**	17%
Other current assets	**37,025**	31,195	5,830	19%	**8%**	8%
Total Current Assets	**243,287**	188,035	55,252	29%	**53%**	46%
Investment in shares of stock of an associate	**1,075**	1,012	63	6%	**0%**	0%
Property, plant and equipment - net	**170,153**	171,602	(1,449)	(1%)	**37%**	42%
Right of Use - net	**5,398**	5,648	(250)	(4%)	**1%**	1%
Investment property - net	**28,437**	29,175	(738)	(3%)	**6%**	7%
Deferred tax assets - net	**1,812**	2,172	(360)	(17%)	**0%**	1%
Goodwill - net	**8,509**	8,235	274	3%	**2%**	2%
Other noncurrent assets - net	**1,400**	1,541	(141)	(9%)	**0%**	0%
Total Noncurrent Assets	**216,784**	219,385	(2,601)	(1%)	**47%**	54%
Total Assets	**460,071**	407,420	52,651	13%	**100%**	100%
Short term loans	**137,886**	109,196	28,690	26%	**30%**	27%
Liabilities for crude oil and petroleum products	**51,067**	42,641	8,426	20%	**11%**	10%
Trade and other payables	**22,896**	14,001	8.895	64%	**5%**	3%
Current portion of lease liability	**1,380**	1,335	45	3%	**0%**	0%
Derivative liabilities	**723**	997	(274)	(27%)	**0%**	0%
Income tax payable	**204**	302	(98)	(32%)	**0%**	0%
Current portion of long-term debt - net	**13,399**	21,580	(8,181)	(38%)	**3%**	5%
Total Current Liabilities	**227,555**	190,052	37,503	20%	**49%**	47%

Forward

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2022	2021	Amount	%	**2022**	2021
Long-term debt - net of current portion	**93,662**	81,065	12,597	16%	**20%**	20%
Retirement benefits liability - net	**3,261**	3,327	(66)	(2%)	**1%**	1%
Deferred tax liabilities - net	**3,601**	3,784	(183)	(5%)	**1%**	1%
Lease liability - net of current portion	**13,714**	14,220	(506)	(4%)	**3%**	3%
Asset retirement obligation	**3,527**	2,857	670	23%	**1%**	1%
Other noncurrent liabilities	**1,201**	1,202	(1)	(0%)	**0%**	0%
Total Noncurrent Liabilities	**118,966**	106,455	12,511	12%	**26%**	26%
Total Liabilities	**346,521**	296,507	50,014	17%	**75%**	73%
Capital stock	**9,485**	9,485	-	0%	**2%**	2%
Additional paid-in capital	**37,500**	37,500	-	0%	**8%**	9%
Capital securities	**62,712**	62,712	-	0%	**14%**	15%
Retained earnings	**30,357**	30,232	125	0%	**7%**	7%
Equity Reserves	**(16,887)**	(18,341)	1,454	(8%)	**(4%)**	(5%)
Treasury stock	**(18,000)**	(18,000)	-	0%	**(4%)**	(4%)
Total Equity Attributable to Equity Holders of the Parent Company	**105,167**	103,588	1,579	2%	**23%**	25%
Non-controlling Interests	**8,383**	7,325	1,058	14%	**2%**	2%
Total Equity	**113,550**	110,913	2,637	2%	**25%**	27%
Total Liabilities and Equity	**460,071**	407,420	52,651	13%	**100%**	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end-2022 amounted to **₱ 460.07 billion**, 13% or ₱ 52.65 billion higher than end-2021 balance of ₱ 407.42 billion. The increase in total assets can be traced largely to higher inventories and receivables.

Financial assets at fair value went up to **₱ 1.75 billion** from ₱ 1.01 **b**illion primarily from higher mark-to-market valuation of outstanding commodity hedges.

Trade and other receivables - net increased by 58% to **₱ 81.98 billion** owing to higher sales volume and prices.

Inventories rose by ₱ 17.66 billion to **₱ 85.35 billion** mainly from higher crude and finished product prices. .

Other current assets increased by 19% to **₱ 37.03 billion** from higher prepaid taxes and unused creditable withholding taxes.

Investment in shares of stock of an associate grew by 6% to **₱ 1.08 billion** following the recognition of share in net income for the year.

Deferred tax assets - net went down from ₱ 2.17 billion to **₱ 1.81 billion** with the partial utilization of previous years' Net Operating Loss Carry Over and net decrease in temporary differences between tax and financial reporting related to depreciation, inventory valuation and unrealized forex loss.

Other noncurrent assets - net declined to **₱ 1.40 billion** from ₱ 1.54 billion mostly from the amortization of catalyst and deferred input tax.

Short-term loans jumped by 26% from ₱ 109.20 billion to **₱ 137.89 billion** with the availment of additional loans to cover the increase in working capital requirements during the year.

Liabilities for crude oil and petroleum products stood higher at **₱ 51.07 billion** compared to end-2021 level of ₱ 42.64 billion owing primarily to the increase in prices during the period.

Trade and other payables jumped by 64% to **P22.90** billion due to higher outstanding liabilities to contractors and vendors, advances from a related party, and higher excise tax payable.

Derivative liabilities declined by 27% to **₱ 723 million** with the lower expected settlement on outstanding commodity and currency hedging transactions.

Income tax payable went down from ₱ 302 million to **₱ 204 million** as tax liabilities of foreign subsidiaries decreased.

Long-term debt including current portion increased to **₱ 107.06 billion** mainly from the revaluation of outstanding US Dollar-denominated loans and availment of long-term loans, net of maturities paid during the period.

Deferred tax liabilities - net dropped by 5% **to ₱ 3.60 billion** from ₱ 3.78 billion level of end-2021 due to the net decrease in temporary differences with respect to depreciation and capital allowance of qualifying assets and leases.

Asset retirement obligation rose by 23% to **₱ 3.53 billion** compared to end-2021 level of ₱ 2.86 billion owing to the provision for accretion booked during the period and the remeasurement of future liability.

The **negative balance of Equity reserves** decreased from ₱ 18.34 billion to **₱ 16.89 billion** mainly from the translation gain on its investments in foreign subsidiaries following the weakening of the peso against the US dollar.

Non-controlling interests rose by 14% to **₱ 8.38 billion** mainly from its proportionate share in net income during the period, net of dividends paid.

2021 vs 2020

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2021	2020	Amount	%	2021	2020
Cash and cash equivalents	36,406	27,053	9,353	35%	9%	8%
Financial assets at fair value	1,005	603	402	67%	0%	0%
Investments in debt instruments	-	184	(184)	(100%)	0%	0%
Trade and other receivables - net	51,745	27,195	24,550	90%	13%	8%
Inventories	67,684	44,922	22,762	51%	17%	13%
Other current assets	31,195	32,337	(1,142)	(4%)	8%	9%
Total Current Assets	188,035	132,294	55,741	42%	46%	38%
Investment in debt instruments	-	197	(197)	(100%)	0%	0%
Investment in shares of stock of an Associate	1,012	-	1,012	high	0%	0%
Property, plant and equipment - net	171,602	168,831	2,771	2%	42%	48%
Right of Use - net	5,648	6,045	(397)	(7%)	1%	2%
Investment property - net	29,175	30,049	(874)	(3%)	7%	9%
Deferred tax assets - net	2,172	2,190	(18)	(1%)	1%	1%
Goodwill - net	8,235	8,031	204	3%	2%	2%
Other noncurrent assets - net	1,541	2,088	(547)	(26%)	0%	1%
Total Noncurrent Assets	219,385	217,431	1,954	1%	54%	62%
Total Assets	407,420	349,725	57,695	16%	100%	100%
Short term loans	109,196	77,704	31,492	41%	27%	22%
Liabilities for crude oil and petroleum products	42,641	22,320	20,321	91%	10%	6%
Trade and other payables	14,001	15,402	(1,401)	(9%)	3%	4%
Current portion of lease liability	1,335	1,243	92	7%	0%	0%
Derivative liabilities	997	1,124	(127)	(11%)	0%	0%
Income tax payable	302	162	140	86%	0%	0%
Current portion of long-term debt - net	21,580	31,114	(9,534)	(31%)	5%	9%
Total Current Liabilities	190,052	149,069	40,983	27%	47%	43%

Forward

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2021	2020	Amount	%	**2021**	2020
Long-term debt - net of current portion	**81,065**	88,340	(7,275)	(8%)	**20%**	25%
Retirement benefits liability - net	**3,327**	3,705	(378)	(10%)	**1%**	1%
Deferred tax liabilities - net	**3,784**	3,084	700	23%	**1%**	1%
Lease liability - net of current portion	**14,220**	14,561	(341)	(2%)	**3%**	4%
Asset retirement obligation	**2,857**	2,867	(10)	(0%)	**1%**	1%
Other noncurrent liabilities	**1,202**	1,904	(702)	(37%)	**0%**	1%
Total Noncurrent Liabilities	**106,455**	114, 461	(8,006)	(7%)	**26%**	33%
Total Liabilities	**296,507**	263,530	32,977	13%	**73%**	75%
Capital stock	**9,485**	9,485	-	0%	**2%**	3%
Additional paid-in capital	**37,500**	37,500	-	0%	**9%**	11%
Capital securities	**62,712**	36,481	26,231	72%	**15%**	10%
Retained earnings	**30,232**	29,799	433	1%	**7%**	9%
Equity Reserves	**(18,341)**	(18,371)	30	(0%)	**(5%)**	(5%)
Treasury stock	**(18,000)**	(15,122)	(2,878)	19%	**(4%)**	(4%)
Total Equity Attributable to Equity Holders of the Parent Company	**103,588**	79,772	23,816	30%	**25%**	23%
Non-controlling Interests	**7,325**	6,423	902	14%	**2%**	2%
Total Equity	**110,913**	86,195	24,718	29%	**27%**	25%
Total Liabilities and Equity	**407,420**	349,725	57,695	16%	**100%**	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end-2021 amounted to **₱ 407.42 billion**, 16% or ₱ 57.69 billion higher than end-2020 balance of ₱ 349.73 billion. The increase in total assets can be traced to higher inventories, trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents increased by **35**% to **₱ 36.41 billion** from ₱ 27.05 billion mainly from the proceeds of perpetual securities issuance and availment of loans, reduced by cash dividend and distribution payments, spending for capital projects and increase in working capital requirements during the year.

Financial assets at fair value went up to **₱ 1.01 billion** from ₱ 603 million due to higher gains on outstanding currency hedges.

Investments in debt instruments (current and non-current) became **nil** from the **₱ 381 million** balance as of end-2020 with the deconsolidation of Petrogen Insurance Corporation (PIC) from the Petron Group.

Trade and other receivables - net rose by 90% to **₱ 51.75 billion** attributable to the increase in trade receivables owing to higher prices, further elevated by the increase in government receivables of Petron Malaysia, partly countered by the decrease in non-trade receivables of the Parent Company.

Inventories increased by ₱ 22.76 billion to **₱ 67.68 billion** mainly from higher prices partly offset by lower volume of finished products versus the end 2020 level.

Investment in shares of stock of an associate amounting to **₱ 1.01 billion** is a result of the decrease in ownership interest of the Parent Company in PIC from 100% to 25.06% effective February 2021.

Right of use asset - net declined by 7% or ₱ 397 million to **₱ 5.65 billion** due to depreciation for the period.

Other noncurrent assets - net declined to **₱ 1.54 billion** from ₱ 2.09 billion mostly from the amortization of deferred input tax.

Short-term loans increased to **₱ 109.20 billion** from end-2020 level of ₱ 77.70 billion due to borrowings to support the increase in working capital requirements.

Liabilities for crude oil and petroleum products stood higher at **₱ 42.64 billion** compared to end-2020 level of ₱ 22.32 billion owing primarily to the continuous increase in prices during the period.

Trade and other payables declined by 9% or ₱ 1.40 billion to **₱ 14.00 billion** due to lower outstanding liabilities to contractors and vendors.

Derivative liabilities decreased by 11% to **₱ 997 million** with the lower expected payout on outstanding commodity hedges, as well as currency hedges under hedge accounting.

Income tax payable grew by 86% from ₱ 162 million to **₱ 302 million** as tax liabilities of Petron Malaysia increased.

Long-term debt (including current portion) declined to **₱ 102.65 billion** from end-2020 balance of ₱ 119.45 billion as a result of the Parent Company's prepayment and amortization of existing peso and dollar loans partly offset by the issuance of retail bonds.

Retirement benefits liability - net decreased by 10% to **₱ 3.33 billion** after considering the contributions made to the retirement fund during the year.

Deferred tax liabilities - net went up to **₱ 3.78 billion** from ₱ 3.08 billion due to Petron Malaysia's temporary differences with respect to depreciation of qualifying assets.

Other noncurrent liabilities stood at **₱ 1.20 billion**, 37% lower than end-2020 level due to lower customer deposits and liabilities from cash flow hedges.

Capital Securities moved up by 72% to **₱ 62.71 billion** traced to the issuance of the US$550 million Senior Perpetual Capital Securities.

Treasury Stock increased by 19% to **₱ 18.00 billion** attributed to redemption of preferred shares.

Non-controlling interests rose by 14% to **₱ 7.33 billion** mainly from its proportionate share in net income during the period.

2020 vs 2019

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2020	2019	Amount	%	**2020**	2019
Cash and cash equivalents	**27,053**	34,218	(7,165)	(21%)	**8%**	9%
Financial assets at fair value	**603**	864	(261)	(30%)	**0%**	0%
Investments in debt instruments	**184**	109	75	69%	**0%**	0%
Trade and other receivables - net	**27,195**	44,657	(17,462)	(39%)	**8%**	11%
Inventories	**44,922**	72,210	(27,288)	(38%)	**13%**	18%
Other current assets	**32,337**	27,430	4,907	18%	**9%**	7%
Total Current Assets	**132,294**	179,488	(47,194)	(26%)	**38%**	45%
Investment in debt instruments	**197**	311	(114)	(37%)	**0%**	0%
Property, plant and equipment - net	**168,831**	168,267	564	0%	**48%**	43%
Right of Use - net	**6,045**	5,509	536	10%	**2%**	1%
Investment property - net	**30,049**	29,935	114	0%	**9%**	8%
Deferred tax assets - net	**2,190**	262	1,928	high	**1%**	0%
Goodwill - net	**8,031**	8,319	(288)	(3%)	**2%**	2%
Other noncurrent assets - net	**2,088**	2,744	(656)	(24%)	**1%**	1%
Total Noncurrent Assets	**217,431**	215,347	2,084	1%	**62%**	55%
Total Assets	**349,725**	394,835	(45,110)	(11%)	**100%**	100%
Short term loans	77,704	71,090	6,614	9%	**22%**	18%
Liabilities for crude oil and petroleum products	22,320	39,362	(17,042)	(43%)	**6%**	10%
Trade and other payables	15,402	28,741	(13,339)	(46%)	**4%**	7%
Current portion of lease liability	1,243	1,295	(52)	4%	**0%**	0%
Derivative liabilities	1,124	738	386	52%	**0%**	0%
Income tax payable	162	267	(105)	(39%)	**0%**	0%
Current portion of long-term debt - net	31,114	16,881	14,233	84%	**9%**	4%
Total Current Liabilities	149,069	158,374	(9,305)	(6%)	**43%**	40%

Forward

	December 31		Horizontal Analysis Increase (Decrease)		Vertical Analysis December 31	
	2020	2019	Amount	%	2020	2019
Long-term debt - net of current portion	88,340	116,196	(27,856)	(24%)	25%	29%
Retirement benefits liability - net	3,705	3,565	140	4%	1%	1%
Deferred tax liabilities - net	3,084	6,348	(3,264)	(51%)	1%	2%
Lease liability - net of current portion	14,561	14,454	107	1%	4%	4%
Asset retirement obligation	2,867	1,720	1,147	67%	1%	0%
Other noncurrent liabilities	1,904	1,748	156	9%	1%	0%
Total Noncurrent Liabilities	114,461	144,031	(29,570)	(21%)	33%	36%
Total Liabilities	263,530	302,405	(38,875)	(13%)	75%	77%
Capital stock	9,485	9,485	-	0%	3%	2%
Additional paid-in capital	37,500	37,500	-	0%	11%	9%
Capital securities	36,481	25,183	11,298	45%	10%	6%
Retained earnings	29,799	45,510	(15,711)	(35%)	9%	12%
Equity Reserves	(18,371)	(16,899)	(1,472)	9%	(5%)	(4%)
Treasury stock	(15,122)	(15,122)	-	0%	(4%)	(4%)
Total Equity Attributable to Equity Holders of the Parent Company	79,772	85,657	(5,885)	(7%)	23%	22%
Non-controlling Interests	6,423	6,773	(350)	5%	2%	2%
Total Equity	86,195	92,430	(6,235)	(7%)	25%	23%
Total Liabilities and Equity	349,725	394,835	(45,110)	(11%)	100%	100%

The consolidated assets of Petron Corporation and its Subsidiaries as of end-2020 amounted to **₱ 349.73 billion**, 11% or ₱ 45.11 billion lower than end-2019 balance of ₱ 394.84 billion primarily due to the decrease in inventories and trade receivables from lower prices and volume.

Cash and cash equivalents was reduced by 21% from ₱ 34.22 billion to **₱ 27.05 billion** as available cash was used to finance capital projects.

Financial assets at fair value decreased to **₱ 603 million** from ₱ 864 million due to lower gains on outstanding commodity and currency hedges.

Investments in debt instruments (current and non-current) went down by 9% to **₱ 381 million** from the end-2019 level of ₱ 420 million with the maturity of some government securities and bonds partly offset by the new investment in government securities by the insurance subsidiary.

Trade and other receivables – net dropped by 39% to **₱ 27.20 billion** attributed to the decrease in sales volume and prices of fuel products.

Inventories was cut by ₱ 27.29 billion to **₱ 44.92 billion** mainly from lower prices and volume of crude and finished products on hand compared to the end-2019 level.

Other current assets increased by 18% to **₱ 32.34 billion** from higher excise tax claims and unused creditable withholding taxes.

Right of use assets – net went up by 10% or ₱ 536 million to **₱ 6.05 billion** with the remeasurement of the related asset retirement obligation for the refinery.

The change in net tax position of the Parent Company due to the additional Net Operating Loss Carry-Over (NOLCO) in 2020 led to the increase in **Deferred tax assets - net** to **₱ 2.19 billion** from ₱ 262 million as of end 2019 and consequently resulted in the reduction in **Deferred tax liabilities - net** from ₱ 6.35 billion to **₱ 3.08 billion**.

Other noncurrent assets - net declined to **₱ 2.09 billion** from ₱ 2.74 billion on account of the amortization of deferred input tax, usage of catalysts as well as drop in currency hedges under hedge accounting.

Short-term loans increased from ₱ 71.09 billion to **₱ 77.70 billion** traced to net loan availment during the year.

Liabilities for crude oil and petroleum products at **₱ 22.32 billion** was lower by 43% compared to end-2019 level of ₱ 39.36 billion owing primarily to lower prices and lesser number of outstanding importations as of end 2020.

Trade and other payables was reduced by 46% to **₱ 15.40 billion** due to lower outstanding liabilities to contractors and vendors.

Derivative liabilities grew by 52% to **₱ 1.12 billion** with the increase in the expected payout on outstanding commodity hedges, as well as currency hedges under hedge accounting, partly offset by the decrease in marked-to-market (MTM) losses on currency forwards.

Income tax payable fell 39% to ₱ 162 million as tax liabilities of foreign subsidiaries declined.

Long-term debt (including current portion) decreased to **₱ 119.45 billion** from end-2019 balance of ₱ 133.08 billion following the Parent Company's prepayment and amortization of dollar and peso loans, partly offset by availment of new loans, i.e. USD 150 million, JPY 15 billion and ₱ 5 billion loan.

Asset retirement obligation increased by more than half to **₱ 2.87 billion** from ₱ 1.72 billion traced to the reassessment/re-measurement of future liability.

Other noncurrent liabilities stood at **₱ 1.90 billion**, 9% higher than end-2019 level due to additional cash bonds received from customers.

Capital securities grew by ₱ 11.30 billion to **₱ 36.48 billion** with the issuance of USD 230 million Redeemable Perpetual Securities in the 2nd and 3rd quarters of 2020.

Retained earnings at **₱ 29.80 billion** was 35% down versus end-2019 level primarily due to the ₱ 11.38 billion net loss incurred by the equity holders of the Parent Company further reduced by the cash dividends and distributions declared during the period.

The **negative balance of Equity reserves** increased from ₱ 16.90 billion to **₱ 18.37 billion** mainly from the translation loss on its investments in foreign subsidiaries as a result of the strengthening of the peso against the US dollar.

Consequently, **Non-controlling interests** slipped from ₱ 6.77 billion to **₱ 6.42 billion,** proportionate to its share in net loss during period, the cash dividends declared to minority shareholders coupled by currency translation adjustments.

Cash Flows

2022 vs 2021

As of December 31, 2022, cash and cash equivalents stood at **₱ 37.18 billion.** During the year, cash generated from operations of ₱31.95 billion was used to fund the ₱ 13.09 billion in interest and tax payments, ₱ 5.68 billion spending for various refinery, terminal, and service station capital projects, and to partly cover the increase in working capital requirement of ₱ 38.31 billion. The ₱ 22.81 billion net cash provided by financing activities covered for the shortfall of funding the higher working capital requirements.

In Million Pesos	**December 21, 2022**	December 31, 2021	Change
Operating outflows	**(22,674)**	(10,668)	(12,006)
Investing outflows	**(2,382)**	(9,759)	7,377
Financing inflows	**22,807**	28,098	(5,291)

2021 vs 2020

As of end-2021, cash and cash equivalents stood at **₱ 36.41 billion**. Cash generated from internal operations of ₱ 28.45 billion and the issuance of Capital securities amounting to ₱ 26.23 billion were used to finance the increase in working capital requirements of ₱ 29.32 billion, payment of interest and taxes amounting to ₱ 9.64 billion, and settlement of maturing loans, dividends and distributions. During the year, the Company also spent ₱ 9.89 billion for various capital projects at the refinery, service stations and terminals.

In Million Pesos	**December 31, 2021**	December 31, 2020	Change
Operating (outflows)/inflows	**(10,668)**	2,533	(13,201)
Investing outflows	**(9,759)**	(8,437)	(1,322)
Financing inflows	**28,098**	318	27,780

2020 vs 2019

The Company ended 2020 with Cash and cash equivalents at ₱ 27.05 billion. The 21% reduction from previous year's balance and the remaining cash generated from internal operations were used to finance the various capital expenditures at the refinery, service stations and terminals amounting to ₱ 8.76 billion. Funds from the net issuance of capital securities amounting to ₱ 11.30 were largely spent to pay the matured loans and dividends and distribution to stakeholders.

In Million Pesos	**December 31, 2020**	December 31, 2019	Change
Operating inflows	**2,533**	25,362	(22,829)
Investing outflows	**(8,437)**	(20,467)	12,030
Financing inflows	**318**	13,116	(12,798)

Discussion of the Company's key performance indicators:

Ratio	**December 31, 2022**	December 31, 2021	December 31, 2020
Current Ratio	**1.1**	1.0	0.9
Debt to Equity Ratio	**3.1**	2.7	3.1
Return on Equity (%)	**6.0**	6.2	(12.8)
Interest Rate Coverage Ratio	**1.6**	1.7	(0.4)
Assets to Equity Ratio	**4.1**	3.7	4.1

Current Ratio - Total current assets divided by total current liabilities.

This ratio is a rough indication of a company's ability to service its current obligations. Generally, higher current ratio indicates greater ability of the company to pay currently maturing obligations.

Debt to Equity Ratio - Total liabilities divided by total stockholders' equity (including non-controlling interest).

This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

Return on Equity - Net income divided by average total stockholders' equity.

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity fund in the statements of financial position. A business that has a high return on equity is more likely capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

Interest Rate Coverage Ratio – Earnings before interests and taxes divided by interest expense and other financing charges.

This ratio is used to assess the company's financial stability by examining whether it is profitable enough to pay off its interest expenses. A ratio greater than 1 indicates that the company has more than enough interest coverage to pay off its interest expense.

Assets to Equity Ratio - Total assets divided by total equity (including non-controlling interest).

This ratio is used as a measure of financial leverage and long-term solvency. The function of the ratio is to determine the value of the total assets of the company less any portion of the assets that are owned by the shareholders of the corporation.

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BUSINESS ENVIRONMENT

Philippine Economy

In 2022, the Philippine economy posted a growth of 7.6%, surpassing government's target band of 6.5% to 7.5% as domestic consumption remained resilient despite soaring inflation. The growth was also faster than the 5.7% growth recorded in 2021. The boost in household consumption was attributed to the improvements in the labor market conditions pushing up revenge and holiday spending despite inflation climbing to 5.8% in 2022. The resumption of construction with the further reopening of businesses, growth of remittances of overseas Filipino workers, and increased trade with global recovery also supported growth.

The peso averaged P54.5/$ in 2022, a 10.6% depreciation from P49.3/$ in 2021. Weakness in peso is mainly due to the country's widening external accounts deficit with the increase in import bill for raw materials, oil, and intermediate products. In addition, the aggressive US Fed interest rate hikes continue to underpin US dollar strength.

Inflation averaged 5.8% in 2022, much higher than 3.9% in 2021 and above the official 2%-4% target band. Higher food prices due to weather-disrupted crops production and price hikes in transportation pushed up inflation.

Oil Market

Oil demand[1] in the country grew by 7.7% to 75,962 thousand barrels ("MB") in the first half 2022 from 70,505 MB in the first half of 2021. Growth in demand was supported by increasing economic activity with less stringent mobility restrictions and reopening of businesses.

Crude price benchmark Dubai averaged $96.3 per barrel ("/bbl") in 2022, much higher than 2021 average of $69.2/bbl. Oil prices were highly volatile in 2022, surging in the 1H of the year as supply tightened due to sanctions on Russian oil after its invasion of Ukraine, then declining rapidly in the 2H as Chinese demand fell, and central banks hiked interest rates. Product cracks were also volatile due to the Russian-Ukraine war as Russia is a major exporter of refined products, particularly Diesel. Product cracks rose to historical highs in the first half of 2022, with Gasoline and Diesel cracks peaking at $42/bbl and $64/bbl, respectively. However, the reduced economic activity in the second half capped the gains on prices as Gasoline cracks fell to as low as $4/bbl in October 2022 and Diesel cracks eased but remained elevated at $37/bbl in December 2022.

Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

Guimaras Oil Spill Incident

On August 11, 2006, MT Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of MT Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the DOTr (then DOTC) and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

[1] Information is from Department of Energy and does not include direct imports by end-users.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292 million. The cases are still pending.

Any significant elements of income or loss (from continuing operations)

There are no significant elements of income or loss from continuing operations.

Seasonal aspects that have material effect on the financial statement

There were no seasonal items that have material effect on the financial statement.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

There were no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

Audit and Audit-Related Fees

The Company paid KPMG the fees set out below for 2022 and 2021:

	2022 (in Pesos)	**2021 (in Pesos)**
Audit fees for professional services - Annual Financial Statement (tax-exempt and exclusive of out-of-pocket expenses)	6,744,200	6,744,200
Professional fees for due diligence and study on various internal projects	3,150,000	7,000,000
Professional fees for tax consulting services	-	-

KPMG, the external auditor of SMC, was first appointed by the Company in 2010. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

The Audit Committee, at its meeting held on March 6, 2022, endorsed the re-appointment of KPMG as external auditor of the Company for 2022 and the approval of KPMG's proposed fees. At its meeting held later the same day, the Board of Directors, finding the recommendations of the Audit Committee to be in order, endorsed the re-appointment of KPMG as external auditor of the Company for 2023 and approved its fees for the approval and ratification, respectively, of the stockholders at the 2022 annual stockholders' meeting. The re-appointment of KPMG and the approval of its fees for 2022 were both approved and ratified, respectively, by the stockholders at the 2022 annual stockholders' meeting.

A new engagement partner of KPMG, Ms. Rohanie C. Galicia, was assigned to the Company beginning with the 2022 audit of financial statements.

Set out in the next page is the report of the Audit Committee for the year 2022.

AUDIT COMMITTEE REPORT

The Board of Directors
Petron Corporation

The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

In the performance of our responsibilities, we report that in 2022:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2022;
- We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Head the annual internal audit plan, approved the same, and satisfied ourselves on the independence of the internal audit function; and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

The Board Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2022.

Margarito B. Teves
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Independent Director

Aurora T. Calderon
Director

Ricardo C. Marquez
Independent Director

Commitments for Capital Expenditure

In 2022, the Company spent P4.36 billion in capital investments, of which P3.63 billion was spent for refinery projects, including the Refinery Solid Fuel Fired Boilers ("RSFFFB") Phase 3. In addition, expenditures incurred for projects in depots amounted to P319 million, service-station related expenditures totaled P336 million and spending for other commercial, maintenance and miscellaneous projects amounted to P75 million.

In 2021, the Company spent ₱7.71 billion in capital investments, of which P6.74 billion was spent for refinery projects, including the RSFFFB Phase 3. In addition, expenditures incurred for projects in depots amounted to ₱468 million, service-station related expenditures totaled ₱417 million and spending for other commercial, maintenance and miscellaneous projects amounted to P80 million.

Any Known Trends, Events or Uncertainties with Material Impact on Liquidity and Net Sales or Revenues or Income

Crude oil accounts for nearly 40% of the Company's total cost of goods sold. Because of the commodity nature of oil, the cost of the Company's refined products is highly dependent on international crude oil and product prices. Fluctuations in the price of crude oil and finished products in the global market arise from factors that are beyond the Company's control, such as changes in global oil supply and demand. The Company's financial results are primarily affected by the differential or margin between the prices for its refined petroleum products and the prices for the crude oil that is the main raw material for these refined petroleum products, geopolitical factors (such as the current Russia-Ukraine conflict), global economic conditions, weather, and government regulations. The Company holds approximately two months of crude oil and finished petroleum products inventory in the Philippines, which is accounted for using the first in-first-out method. Thus, a sharp drop in crude oil prices, for example, will result in losses, as the Company sells products produced from higher-priced crude oil, at lower prices.

Similarly, movements in oil prices may affect our working capital requirements. In 2022, the Company needed significantly higher working capital requirements as crude oil prices increased from average $69/bbl in 2021 to average $96/bbl in 2022. The increase was adequately addressed by the Company's ample cash balances, strong support from domestic and international banks for its working capital lines, and continuous and prudent management of the Company's cash position.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on accounting and financial disclosures.

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"Part IV - Management and Certain Security Holders" follows on next page]

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

(A) Directors, Executive Officers and Board Committees of the Registrant

(i) Director and Executive Officers

Listed below are the directors and officers of the Company from Vice President and up (including the Assistant Corporate Secretary) as of the date of this report, with their respective ages, citizenships, and current and past positions held and business experience for at least the past five (5) years until the date of this Annual Report.

Directors

Name	Age	Position	Year Appointed as Director
Ramon S. Ang	69	Filipino	President and Chief Executive Officer
Lubin B. Nepomuceno	71	Filipino	Director and General Manager
Ron W. Haddock	82	American	Director
Estelito P. Mendoza*	93	Filipino	Director
Aurora T. Calderon	68	Filipino	Director
Mirzan Mahathir	64	Malaysian	Director
Francis H. Jardeleza	73	Filipino	Director
Virgilio S. Jacinto	66	Filipino	Director
Nelly F. Villafuerte	86	Filipino	Director
Jose P. de Jesus	88	Filipino	Director
Horacio C. Ramos	77	Filipino	Director
John Paul L. Ang	43	Filipino	Director
Artemio V. Panganiban	86	Filipino	Independent Director
Margarito B. Teves	79	Filipino	Independent Director
Ricardo C. Marquez	62	Filipino	Independent Director

*Previously served as a Director of the Company from 1974 to 1986.

Set out below are the profiles of the Directors of the Company.

Ramon S. Ang, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. In relation to the oil and gas industry, Mr. Ang holds the following positions, among others: Chairman of SEA Refinery Corporation ("SEA Refinery"), New Ventures Realty Corporation ("NVRC"), Petron Freeport Corporation ("PFC"), Petron Fuel International Sdn. Bhd. (Malaysia) ("PFISB"), Petron Malaysia Refining & Marketing Bhd. (Malaysia) ("PMRMB"), and Petron Oil (M) Sdn. Bhd. ("POMSB") (Malaysia); Chairman and President of Mariveles Landco Corporation ("MLC"), Petrochemical Asia (HK) Ltd. ("PAHL"), and Robinson International Holdings Ltd. (Cayman Islands); Director of Las Lucas Construction and Development Corporation ("LLCDC"), Petron Oil & Gas Mauritius Ltd. ("POGM") and Petron Oil & Gas International Sdn. Bhd.

("POGI"). He also holds the following positions, among others: Chairman and Chief Executive Officer and President and Chief Operating Officer of SMC Global Power Holdings Corp., Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc, and Privado Holdings Corporation; Chairman of San Miguel Brewery Inc. ("SMB"), San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation ("SMYPC"), Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Petrogen Insurance Corporation ("Petrogen"), Philippine Diamond Hotel and Resort, Inc., and Eagle Cement Corporation; Chairman, President and Chief Executive Officer of SMC TPLEX Corporation (formerly, Private Infra Dev Corporation); President and Chief Executive Officer of Northern Cement Corporation; Chairman and Chief Executive Officer of SMC Asia Car Distributors Corp.; and President of San Miguel Northern Cement, Inc. He is also the sole director and shareholder of Master Year Limited. Mr. Ang formerly held the following positions, among others: Chairman of Cyber Bay Corporation and Liberty Telecoms Holdings, Inc.; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of Manila North Harbour Port Inc. ("MNHPI") (2015 - 2017). Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five (5) years. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University. He holds a doctoral degree in Business Engineering (Honoris Causa, 2018) from the Far Eastern University and a Ph.D. in Humanities (Honoris Causa, October 1, 2006) from the National University.

Mr. Ang also holds the following positions in other publicly listed companies: Vice Chairman, President and Chief Executive Officer of San Miguel Corporation ("SMC") and San Miguel Food and Beverage, Inc. ("SMFB"); President and Chief Executive Officer of Top Frontier Investment Holdings Inc. ("Top Frontier"); Chairman of PMRMB (a company publicly listed in Malaysia), and San Miguel Brewery Hongkong Limited (a company publicly listed in Hong Kong); and President of Ginebra San Miguel, Inc. ("GSMI").

Lubin B. Nepomuceno, Filipino, born 1951, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of Petron Marketing Corporation ("PMC"); Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, Philippine Polypropylene Inc. ("PPI"), PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd., Petron Singapore Trading Pte. Ltd. ("PSTPL"), SMYPC and San Miguel Yamamura Packaging International, Ltd.; Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman and President of Mema Holdings, Inc.; Chairman of Overseas Ventures Insurance Corporation Ltd. ("Ovincor") and Petrofuel Logistics, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 - February 2013) and the President of the Company (February 2013 - February 2015). He also served as the Chairman of Petrogen (until 2021) and a Director of MNHPI (2012 - 2014). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master's degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

Mr. Nepomuceno does not hold a directorship in any company listed with the PSE other than Petron.

Estelito P. Mendoza, Filipino, born 1930, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance Committee and the Audit Committee. He is likewise a member of the Board of Directors of SMC, and Philippine National Bank ("PNB"). He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He was also a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines (*cum laude*) and Master of Laws degree from Harvard University. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 "Professional Award in Law" and in 2013 its "Lifetime Distinguished Achievement Award".

Of the companies in which Atty. Mendoza currently holds directorships other than Petron, SMC and PNB are also listed with the PSE.

Jose P. de Jesus, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is an Independent Director and the Chairman of Converge ICT Solutions, Inc. He was the Chairman of Clark Development Corporation (March 2017 – November 2020), the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 - June 2015), the Secretary of the Department of Transportation and Communications (July 2010 - June 2011), the President and Chief Operating Officer of MERALCO (February 2009 - June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 - December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 - December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 - 1993) and the Secretary of the Department of Public Works and Highways (January 1990 - February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was *Lux in Domino* Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a Director of SMC Skyway Corporation, SMC TPLEX Corporation, SMC SLEX, Inc., Comstech Integration Alliance, Inc., as well as an independent director of Alviera Country Club. He is a Trustee of the Kapampangan Development Foundation and Holy Angel University, and a Member of the Board of Advisors of Bantayog ng mga Bayani Foundation. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago under university scholarship and Fulbright grant.

Of the companies in which Mr. de Jesus currently holds directorships, Converge Information and Communications Technology Solutions, Inc. is also listed with the PSE.

Ron W. Haddock, American, born 1940, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI; and lead independent director of the board of Delek Logistics Partners LP. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

Mr. Haddock does not hold a directorship in any company listed with the PSE other than Petron.

Mirzan Mahathir, Malaysian, born 1958, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn. Bhd and Managing Director of Betamek Berhad. He holds directorships in several public and private companies. He was formerly the Executive Chairman of SBI Offshore Ltd., which is listed on the Singapore Stock Exchange (2017 - 2020) and the Executive Chairman and President of Konsortium Logistik Berhad (1992 - 2007). Mr. Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

Mr. Mirzan does not hold a directorship in any company listed with the PSE other than Petron.

Aurora T. Calderon, Filipino, born 1954, has served as a Director of the Company since August 13, 2010. She is a member of the Executive Committee, the Audit Committee, the Risk Oversight Committee and the Related Party Transaction Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; President of Petrogen; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SEA Refinery, NVRC, LLCDC, SMYPC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She has served as a Director of the Manila Electric Company ("MERALCO") (January 2009 - May 2009), Senior Vice President of Guoco Holdings (1994 - 1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981 - 1989). She is a certified public accountant and is a member of the Capital Market Development Committee of the Financial Executives Institute of the Philippines and the Philippine Institute of Certified Public Accountants. She is also a director of the Market Governance Board of the Philippine Dealing System Holdings. Ms. Calderon graduated *magna cum laude* from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her master's degree in Business Administration from the Ateneo de Manila University in 1980.

Of the companies in which Ms. Calderon currently holds directorships other than Petron, SMC and Petron-affiliate Top Frontier are also listed with the PSE.

Francis H. Jardeleza, Filipino, born 1949, has served as a Director of the Company since August 4, 2020. He is likewise a Director of GSMI and SMFB. He is also a director of MORE Electric and Power Corporation. He has been a Professorial Lecturer in Constitutional, Administrative, Remedial and Corporation Law at the University of the Philippines College of Law since 1993. Justice Jardeleza is also currently the Chairman of the International and Maritime Law Department of the Philippine Judicial Academy. He was formerly the Senior Vice President and General Counsel of SMC (1996 – 2010), a partner of Angara Abello Concepcion Regala and Cruz Law Offices (1975 – 1987), Roco Buñag Kapunan Migallos and Jardeleza Law Offices (1992 – 1995), Jardeleza Sobreviñas Diaz Hayudini and Bodegon Law Offices (1987 – 1990) and Jardeleza Law Offices (1990 – 1992). He is a retired Associate Justice of the Supreme Court of the Philippines (August 19, 2014 – September 25, 2019). He also served as Solicitor General of the Office of the Solicitor General of the Philippines (February 20, 2012 – August 18, 2014) and Deputy Ombudsman for Luzon of the Office of the Ombudsman of the Philippines (July 7, 2011 – February 19, 2012). Justice Jardeleza earned his Bachelor of Laws degree (salutatorian and *cum laude*) from the University of the Philippines in 1974, placed third in the bar exam that same year, and earned his Master of Laws degree from Harvard Law School in 1977.

Of the companies in which Justice Jardeleza currently holds directorships other than Petron, Petron-affiliates GSMI and SMFB are also listed with the PSE.

Virgilio S. Jacinto, Filipino, born 1956, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee of the Company and an alternate member of the Executive Committee. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Atty. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of SMB, and San Miguel Northern Cement, Inc., a Partner of Villareal Law Offices (June 1985 - May 1993) and an Associate of SyCip Salazar Feliciano & Hernandez Law Office (1981 - 1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (*cum laude*) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

Atty. Jacinto does not hold a directorship in any company listed with the PSE other than Petron.

Nelly Favis-Villafuerte, Filipino, born 1937, has served as a Director of the Company since December 1, 2011. She was a columnist in two columns of the Manila Bulletin for more than 34 years and resigned recently. She was also a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is the President and General Manager of LRV Agri-Science Farm, Inc., a family-owned corporation, and a Director of Bicol Broadcasting Systems, Inc. (also a family-owned corporation). She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998 - 2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry ("DTI") (July 1998 - May 2000), and Undersecretary for the Regional Operations Group of the DTI (May 2000 - 2005). She holds a master's degree in Business Management from the Asian Institute of Management ("AIM") and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked seventh place in the bar examinations.

Atty. Villafuerte does not hold a directorship in any company listed with the PSE other than Petron.

Horacio C. Ramos, Filipino, born 1945, has served as a Director of the Company since May 2018. He is also the President of Clariden Holdings, Inc. (2012 - present). He was previously a Director of SMC (2014 to 2016), the Secretary of the Department of Environment and Natural Resources (February 12 - June 30, 2010), and the Director of Mines and Geosciences Bureau (June 1996 - February 2010). Mr. Ramos has a Bachelor of Science degree in Mining Engineering from the Mapua Institute of Technology obtained in 1967, and has a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

Mr. Ramos does not hold a directorship in any company listed with the PSE other than Petron.

John Paul L. Ang, Filipino, born 1980, was elected as a Director of the Company on March 9, 2021. He has been a director of SMC since January 21, 2021, SMC Global Power Holdings Corp. since June 1, 2021, SMFB since June 2, 2021 and Top Frontier since July 9, 2021. He holds and has held various positions in Eagle Cement Corporation, such as the President and Chief Executive Officer since 2008, a Director since 2010, a member of the Audit Committee since 2020 and the Chairman of the Executive Committee since February 2017. He also served as a member of the Nomination and Remuneration Committee (February 13, 2017 – July 15, 2020) and the General Manager and Chief Operating Officer (2008 – 2016). He has been the President and Chief Executive Officer of South Western Cement Corporation since 2017 and a Director of KB Space Holdings, Inc. since 2016. He was the Managing Director of Sarawak Clinker Sdn. Bhd. Malaysia (2002 – 2008) and the Purchasing Officer of Basic

Cement (2002 – 2003). Mr. Ang has a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University.

Of the companies in which Mr. Ang currently holds directorships, parent companies Top Frontier and SMC and Petron affiliate SMFB are also listed with the PSE.

Artemio V. Panganiban, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Related Party Transaction Committee and a member of the Audit and Corporate Governance Committees. He is a columnist of the Philippine Daily Inquirer, and an officer, adviser or consultant to several other business, civic, educational and religious organizations. He was the Chief Justice of the Philippines in 2005 - 2006; Associate Justice of the Supreme Court (1995 - 2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004 - 2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967 - 1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961 - 1970). He authored over a dozen books and received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree (*cum laude*) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities. He co-founded and headed the National Union of Students of the Philippines in 1957-1959.

Apart from Petron, Chief Justice Panganiban is an Independent Director of the following listed companies: MERALCO, JG Summit Holdings, Inc., PLDT, Inc., Metro Pacific Investments Corp., RL Commercial REIT, Inc., GMA Network, Inc., GMA Holdings, Inc., and Asian Terminals, Inc. and is a non-executive Director of Jollibee Foods Corporation.

Margarito B. Teves, Filipino, born 1943, has served as an Independent Director of the Company since May 20, 2014 and currently sits as the Lead Independent Director of the Company. He is the Chairman of the Audit Committee and is a member of the Corporate Governance, the Related Party Transaction, and the Risk Oversight Committees of the Company. He is also an Independent Director of SMC and Atok Big Wedge Corporation, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum. He was the Secretary of the Department of Finance of the Philippine government (2005 - 2010), and was previously the President and Chief Executive Officer of the Land Bank of the Philippines (2000 - 2005), among others. He was awarded as "2009 Finance Minister of Year/Asia" by the London-based *The Banker* Magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Of the companies in which Mr. Teves currently holds directorships other than Petron, SMC and Atok are also listed with the PSE.

Ricardo C. Marquez, Filipino, born 1960, has served as independent director of the Company since May 17, 2022. He currently holds the following positions: an independent director and the Chairman of the Risk Oversight Committee of SMFB (since March 2017); an independent director and the Chairman of the Risk Oversight Committee of Eagle Cement Corporation (since February 2017); an independent director of Top Frontier (since June 2022) and a member of the Board of Trustees of the Public Safety Mutual Benefit Fund, Inc. (beginning July 2015), after serving as its Chairman from July 2015 to June 2016. He served the Philippine National Police ("PNP") in various capacities before he became the PNP Chief in July 2015. He was awarded twice the Philippine Legion of Honor by the President of the

Philippines, and feted by his alma mater with her highest award, the Cavalier Award as the Most Outstanding Alumnus in Special Operations. He completed the Senior Leadman Course of the University of the Philippines Open University; Leaders in Development Executive Program of the Harvard Kennedy School; the Strategic Business Economics Program of the University of Asia and the Pacific; the 224th Session of the Federal Bureau of Investigation National Academy; and the Senior Crisis Management Course of the Anti-Terrorism Assistance Program, Department of Homeland Security in Washington, D.C. He graduated from the Philippine Military Academy and holds a Master in Management degree from the Philippine Christian University.

Of the companies in which Gen. Marquez currently holds directorships other than Petron, Petron-affiliate SMFB **is** also listed with the PSE.

<u>Board Attendance and Trainings/Corporate Governance Seminars in 2022</u>

The schedule of the meetings for any given year is presented to the directors the year before.

The Board of Directors was therefore advised of the schedule of the board meetings for 2023 at the board meeting held on November 8, 2022. Similarly for 2022, the schedules of the meetings for this year was approved by the Board of Directors on November 9, 2021. Should any matter requiring immediate approval by the Board of Directors arise in between meetings, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company's by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company's by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company (including all its executive officers and the Internal Auditor) attended a corporate governance seminar in 2022 conducted by providers duly accredited by the SEC and conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

The list of the directors of the Company and the directors' attendance at meetings held in 2022 are set out below.

Director's Name	February 15 Special Board Meeting	March 8 Regular Board Meeting	May 4 Regular Board Meeting	May 17 Annual Stockholders' Meeting	May 17 Organizational Board Meeting	August 1 Regular Board Meeting	November 8 Regular Board Meeting	Attendance at Corporate Governance Seminar in 2022
1. Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
2. Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓
3. Estelito P. Mendoza	✓	✓	✓	▼	▼	✓	✓	✓
4. Jose P. De Jesus	✓	✓	✓	✓	✓	✓	✓	✓
5. Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓
6. Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓
7. Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓
8. Francis H. Jardeleza	✓	✓	✓	✓	✓	✓	✓	✓
9. Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓
10. Nelly Favis-Villafuerte	✓	✓	✓	✓	✓	✓	✓	✓
11. Horacio C. Ramos	✓	✓	✓	✓	✓	✓	✓	✓
12. John Paul L. Ang	✓	✓	✓	✓	✓	✓	✓	✓
13. Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	✓
14. Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	✓
15. Carlos Jericho L. Petilla*	✓	✓	▼	N/A	N/A	N/A	N/A	N/A
16. Ricardo C. Marquez**	N/A	N/A	N/A	✓	✓	✓	✓	✓

Legend: ✓ - Present ▼ - Absent

** - Ceased to be a Director on May 17, 2022*

*** - Elected as Director at the May 17, 2022 Annual Stockholders' Meeting*

Officers

The following were the officers from Vice President and up (including the Corporate Secretary) of the Company as of the date of this report:

Name	Age	Nationality	Position	Year Appointed as Officer
Ramon S. Ang	69	Filipino	President and Chief Executive Officer	as President: 2015; as Chief Executive Officer: 2009
Lubin B. Nepomuceno	71	Filipino	General Manager	2015
Emmanuel E. Eraña	62	Filipino	Senior Vice President and Chief Finance Officer	2009
Freddie P. Yumang	65	Filipino	Senior Vice President – Chief Risk Officer	2023
Susan Y. Yu	46	Filipino	Vice President – Procurement	2009
Albertito S. Sarte	56	Filipino	Deputy Chief Finance Officer and Treasurer	as Treasurer: 2009; as Deputy Chief Finance Officer and Treasurer: 2021
Maria Rowena Cortez	58	Filipino	Vice President – Supply	2009
Jaime O. Lu	59	Filipino	Vice President and Executive Assistant to the President on Petron Malaysia Operations, Refinery Special Projects and Retail Engineering and Network Development	2018
Maria Rosario D. Vergel de Dios	59	Filipino	Vice President – Human Resources	2018
Myrna C. Geronimo	56	Filipino	Vice President and Controller	as Controller: 2019; as Vice President: 2020
Allister J. Go	58	Filipino	Vice President, Refinery	2020
Reynaldo V. Velasco, Jr.	57	Filipino	Vice President, Refinery Plant Operations	2020
Magnolia Cecilia D. Uy	56	Filipino	Vice President, Retail Sales	2021
Virgilio V. Centeno	53	Filipino	Vice President, Industrial Sales	2021
Mark Tristan Caparas	40	Filipino	Vice President and Chief Finance Officer, Petron Malaysia	2022
Jonathan F. Del Rosario	55	Filipino	Vice President, Operations and Corporate Technical Services Group	2023
Lemuel C. Cuezon	57	Filipino	Vice President, Marketing	2023
Jhoanna Jasmine M. Javier-Elacio	50	Filipino	Assistant Vice President – General Counsel and Corporate Secretary	2023

Set out below are the profiles of the officers of the Company from Vice President and up (including the Corporate Secretary) as of the date of this report who are not nominees for directors.

Emmanuel E. Eraña, Filipino, born 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: Chairman, President and Chief Executive Officer of LLCDC; Chairman and President of South Luzon Prime Holdings Inc. ("SLPHI") and Parkville Estates Development Corporation ("PEDC"); President and Chief Executive Officer of NVRC; President of PFI and SEA Refinery; Vice President of Ovincor; Director of PFC, PMC, Abreco Realty Corporation ("ARC"), PPI, Mema, Weldon, PLI, PFISB, POMSB, and Petron Finance (Labuan) Limited; and Alternate Director of POGM and POGI. He was formerly the President of Petrogen. Mr. Eraña also held the following positions in the San Miguel Group: as the Vice President and Chief Information Officer (January 2008 – December 2009), Vice President and Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006 – January 2008), Vice President and Chief Finance Officer of SMFBIL/NFL Australia (May 2005 – November 2006), Vice President and Chief Finance Officer of SMPFC (July 2002 – May 2005), and Assistant Vice President and Finance Officer (January 2001 – June 2002), Assistant Vice President and Finance and Management Services Officer, San Miguel Food Group (2000 – 2001). He also served as a Director of MNHPI (2012 – 2017). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

Freddie P. Yumang, Filipino, born 1958, has served as the Senior Vice President – Chief Risk Officer of the Company since January 1, 2023. He held the following positions in the Company: as Petron Consultant (January 2020 – December 2022), Senior Vice President – Bataan Refinery (February 2018 – December 2019) and Vice President – Bataan Refinery (June 2009 – January 2018). He is a Director of MLC, PAHL and RIHL. He was formerly the President of the National Association of Mapua Alumni, former President of the Foundation of Outstanding Mapuans, the President of Mechanical Engineering Alumni of Mapua, and the National Director of the Philippine Society for Mechanical Engineers. He is the current President of Philippine Society of Industrial Plant Specialists. Mr. Yumang is a Professional Mechanical Engineer who graduated from the Mapua Institute of Technology, with earned units for a master's degree in Business Administration from the De La Salle University and completed short Management courses at the Asian Institute of Management.

Ms. Susan Y. Yu, Filipino, born 1976, has served as the Vice President for Procurement of the Company since January 2009. She is also a Director of Overseas Ventures Insurance Corporation Ltd. and Petron Singapore Trading Pte. Ltd. ("PSTPL"), a Trustee of Petron Foundation, Inc., and the Treasurer of Petrogen Insurance Corporation. She is also the Vice President & Corporate Procurement Head of San Miguel Corporation, Vice President for Procurement at SMC Infrastructure, Vice Chairman of SMC TPLEX Corporation, President of WISELINK Investment Holdings Inc., and a Director of TPLEX Operations and Maintenance Corporation, Trans Aire Development Holdings Corp., SMC Skyway Corporation, and SMC SLEX Inc. Ms. Yu was formerly the Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003 – February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997 – June 2003). She holds a Commerce degree Major in Business Management for De La Salle University and a master's degree in Business Administration from Ateneo de Manila University, for which she was awarded a gold medal for academic excellence.

Maria Rowena O. Cortez, Filipino, born 1964, has served as the Vice President for Supply of the Company since November 2013. She is also a Director of PSTPL, PPI, PAHL, RIHL and MLC. The various positions she has held in the Company include Vice President for Supply & Operations (July 2010 – November 2013), Vice President for Supply (June 2009-June 2010) and various managerial and supervisory positions in the Marketing/Sales and Supply and Operations Divisions of Petron. Ms. Cortez also held various positions at the Phil. National Oil Company-Energy Research and Development Center from 1986 to 1993. She holds a Bachelor of Science degree in Industrial Engineering and a Master's

Degree in Business Administration both from the University of the Philippines, Diliman. She also took post graduate courses at the AIM, University of Oxford in Oxfordshire, UK and ExecOnline-Columbia University. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, commodity risk management, petroleum, petrochemicals and energy oil trading.

Albert S. Sarte, Filipino, born 1967, has served as Deputy Chief Finance Officer and Treasurer of the Company since May 4, 2021 and was Vice President – Treasurer since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

Jaime O. Lu, Filipino, born 1963, has served as the Company's Vice President and Executive Assistant to the President on Petron Malaysia Operations, Retail Engineering and Network Development, and other Special Projects since November 2018. He is also a director of PLI, PFISB and POMSB. Mr. Lu was formerly the Company's Vice President – Operations Manager for Petron Malaysia (April 2012 – October 2018), and Vice President - General Manager of PPI (January 2011 – February 2012). He holds a Bachelor of Science Degree in Chemical Engineering from the Pamantasan ng Lungsod ng Maynila and a master's degree in Business Administration from the Ateneo de Manila University.

Maria Rosario D. Vergel de Dios, Filipino, born 1963, has served as Vice President for Human Resources Management of the Company since November 16, 2018. Other positions she has held include Assistant Vice President for Human Resources (July 2012 – November 15, 2018), Head for Human Resources (October 2011 – June 2012), Human Resources Planning and Services Manager (October 2008 – September 2011), Payroll and Benefits Officer (January 2002 – September 2008), Payroll Officer (February 1997 to – December 2001), Assistant for Treasury/ Funds Management (May 1994 to – January 1997), Assistant for Treasury/ Foreign Operations (September 1991 – April 1994) and Secretary for the Office of the President (April 1991 – August 1991). She has a Bachelor of Science degree in Economics from the University of the Philippines and a master's degree in Business Management from the Ateneo de Manila University.

Magnolia Cecilia D. Uy, Filipino, born 1966, has served as Vice President for Retail Sales since October 1, 2021. She was formerly the Vice President for Management Services Division of the Company from February 13, 2020 to September 30, 2021. Other positions she has held include Assistant Vice President for Management Services (June 2018 – February 2020), Assistant Vice President for Market Planning, Research and Sales Information and concurrent Head of the Management Information Systems (February 2018 – May 2018) and Assistant Vice President for Market Planning, Research and Sales Information (February 2013 – January 2018). She is Chief Executive Officer and President of PFC; Director of PMC, NVRC and LLCDC; and a Trustee of PFI. She has a Bachelor of Science degree in Computer Science and a master's degree in Business Administration from the University of the Philippines.

Myrna C. Geronimo, Filipino, born 1966, has served as Vice President for Controllers and Controller the Company since February 13, 2020. She holds the following positions, among others: Controller of PFC, PMC, NVRC, LLCDC, MLC, PPI, Mema and PLI; Director, Controller and Treasurer of SLHPI and PEDC; and Director of PSTPL. She is also the Controller of PFI. Ms. Geronimo was formerly the Assistant Vice President for Controllers and Controller of the Company and the Chief Finance Officer of PMRMB, PFISB and POMSB. Ms. Geronimo holds a Bachelor in Accountancy degree from the Polytechnic University of the Philippines.

Allister J. Go, Filipino, born 1965, has served as Vice President for Refinery of the Company since February 13, 2020. He is Director of MLC, ARC, PPI, PAHL and RIHL. He is also a Trustee of PFI. Other positions he has held include Head of Refinery Plant Operations (February 2018 – November 2019), Assistant Vice President for Refinery Production A (January 2018), Officer-in-Charge of Refinery Production A (April 2017 – December 2017), Operations Manager of Refinery Production B (July 2014 – March 2017), Project Manager of RMP2 Project (December 2010 – June 2014), Supply Head, Supply Division (June 2010 – November 2010), Manager of Production Division B Expansion Facilities (June 2009 – May 2010), Manager of Refinery Planning and Quality Control (January 2007 – May 2009), Refinery Engineering Technology Manager (April 2003 – Dec 2006), and Assistant Manager of Business Development, Corporate Planning (June 2001 – March 2003), Business Development Officer, Corporate Planning (March 1995 – May 2001). He joined the Company as a Refinery Process Design Engineer in May 1988 and has handled several positions in the refinery, including Linear Program Engineer, prior to his assignment in Corporate Planning. He graduated from Adamson University in 1987 with a Bachelor of Science degree in Chemical Engineering and placed Top 2 in the November 1987 Chemical Engineering Licensure Exam. He has attended the Management Development Program of the Asian Institute of Management in 2002 as well as several foreign and local trainings and seminars, including an Engineering Design Course at UOP in Illinois, USA in 1993.

Reynaldo V. Velasco, Jr., Filipino, born 1965, has served as Vice President for Refinery Plant Operations (Production A and B) since February 13, 2020. He is a Director of ARC. He was formerly Assistant Vice President – Technical Services Refinery (November 2018 – January 2020), Assistant Vice President – Production B Refinery (January 2018 – October 2018), Officer-in-Charge – Production B Refinery (April 2017 – December 2017), Manager – Technical Services B Refinery (July 2014 – March 2017), Project Manager – Block B RMP 2 Refinery (December 2010 – June 2014), Manager – PBR SPG Technology Operations (November 2009 – November 2010), Area Manager – Operations Process Block 1 (January 2007 – November 2009), Area Manager – Operations Process Block 2 (July 2005 – December 2006), Area Manager – Operations Process Block 1 (July 2003 – June 2005), Process Specialist (January 2002 – June 2003), Senior Process Engineer (April 2000 – December 2001), Shift Supervisor – PBR Operations (November 1998 – March 2000), Operations Engineer – PBR Engineering (September 1993 – October 1998), Process Design Engineer – PBR Engineering (July 1990 – August 1993). He has a Bachelor of Science degree in Chemical Engineering from the University of Sto. Tomas.

Virgilio V. Centeno, Filipino, born 1969, has been serving as Vice President for Industrial Sales since October 1, 2021. Other positions he has held include Vice President for LPG and Strategic Business Development (May 1, 2021 – September 30, 2021), Assistant Vice President – LPG Business Group (September 2019 – April 2021), Assistant Vice President – LPG, Lubes & Greases/Commercial Sales (June 2018 – August 2019), Assistant Vice President – Lubes & Greases/National Sales (September 2016 – May 2018), LPG and Lubes & Greases Trade Manager/National Sales (March 2016 – August 2016), Card Sales Manager/Reseller Trade/National Sales (August 2013 – February 2016), Card Sales Manager/LPG, Lubes & Greases, and Cards/National Sales (July 2012 – July 2013), National Accounts Manager/Industrial Trade (June 2009 – June 2012), Fleet Cards Sales Manager/Cards Business Group (August 2006 – June 2009), Business Development Coordinator/Direct Retail/Convenience Retail (November 2005 – July 2006), IMD Account Executive/Industrial Trade (February 2003 – October 2005), Special Projects Engineer/Technical Services (April 2002 – January 2003), Field Technical Services Engineer/Technical Services (February 1993 – March 2002) and Analyst, EDD/Geothermal (February 1992 – January 1993). Mr. Centeno has a BS Mechanical Engineering degree from the Bulacan College of Arts and Trades (*magna cum laude*).

Mark Tristan D. Caparas, Filipino, born 1983, has served as Vice President for Petron Malaysia since March 8, 2022. He is the Chief Finance Officer of PMRMB, PFISB and POMSB. He is a Director of SLPHI and PEDC. Other positions he has held include Assistant Vice President and Chief Finance Officer for Petron Malaysia (February 13, 2020 – March 7, 2022), Chief Finance Officer for Petron Malaysia (July 1, 2019 – February 12, 2020), Assistant Controller, Office of the CFO (September 2015 – June 2019), Financial Analysis and Compliance Manager (August 2014 – August 2015), Finance Manager, Philippine

Polypropylene Inc./Office of the CFO (July 2010 – July 2014), Financial Analyst (April 2009 – June 2010) and Credit Analyst, Credit/Finance Subsidiaries (February 2006 – March 2009). Mr. Caparas has a Bachelor of Science degree in Business Administration and Accountancy (*magna cum laude*) from the University of the Philippines and has a master's degree in Business Administration from the Ateneo Graduate School of Business and is a licensed CPA.

Jonathan F. Del Rosario, Filipino, born 1967, is the Vice President for Operations and Corporate Technical Services Group of the Company appointed on March 6, 2023 effective April 1, 2023. Other positions he has held include Assistant Vice President for Operations and CTSG OIC (April 1, 2022 – March 2023), Assistant Vice President for Metro Manila and Manufacturing District (March 8 – July 31, 2022), Manager – Metro Manila and Manufacturing District (August 2021 – March 7,2022), Manager – Lube Manufacturing (January 2021 – July 2021), Manager – Special Assignment (November 2020 – December 2020), Manager – Visayas Operations (September 2019 – November 2020), Manager – Batangas Terminal (April 2015 – August 2019), Manager – Limay Terminal (October 2012 – April 2015), Manager – Pandacan Terminal (May 2011 – October 2012), Manager – Limay Terminal (May 2005 – April 2011), Engineer – Luzon Operations (August 2000 – May 2005), Engineer – Luzon Operations/Poro (December 1996 – July 2000) and Engineer – Pandacan Terminal (December 1991 – November 1996). Mr. Del Rosario has a Bachelor of Science degree in Electrical Engineering from the FEATI University.

Lemuel C. Cuezon, Filipino, born 1965, has served as Vice President for Marketing since March 6, 2023. Other positions he has held include Assistant Vice President for Marketing Division of the Company (April 4, 2022 – March 2023), Assistant Vice President – Market Planning, Research and Sales Information (February 13, 2020 – April 3, 2022), National Manager – Market Planning, Research and Sales Information (June 2018 – February 12, 2020), Luzon Regional Manager – Reseller Luzon (December 2017 – May 2018), VisMin Regional Manager – Reseller VisMin (July 2014 – November 2017), Metro Area Sales Manager – Reseller South Metro (February 2012 – June 2014), Mindanao Area Sales Manager – Reseller VisMin (June 2008 – January 2012), Marketing Coordinator – Retail Luzon (November 2003 – May 2008), Planning and Economics Coordinator – MPRAD (June 2003 – October 2003), Pricing and Business Coordinator – MPRAD (January 2001 – May 2003), Senior Pricing and Business Analyst – MPRAD (January 1999 – July 2000) and HR Assistant (February 1989 – December 1993). Mr. Cuezon has a Bachelor of Science degree in Industrial Engineering from the University of the Philippines.

Jhoanna Jasmine M. Javier-Elacio, Filipino, born 1972, has served as the Assistant Vice President – General Counsel, Corporate Secretary and Compliance Officer of the Company since March 6, 2023. She was the Corporate Secretary and Compliance Officer from March 31, 2022 to March 5, 2023, Assistant Corporate Secretary and Alternate Compliance Officer from May 15, 2012 until March 31, 2022. She is also the Corporate Secretary of a number of the domestic subsidiaries of the Company. Atty. Javier-Elacio was also the Legal Manager of Petron Corporation and the Assistant Corporate Secretary of Petron Foundation, Inc. and a number of the domestic subsidiaries of the Company (May 15, 2012 – March 31, 2022). She previously held the positions of Associate General Counsel of San Miguel Yamamura Packaging Corporation (January 2010-February 2012), Manager for Corporate Restructuring and Reorganization of San Miguel Corporation (December 2007-December 2009) and legal counsel of San Miguel Corporation (October 20005-November 2007). She has also acted as Corporate Secretary and Assistant Corporate Secretary of various subsidiaries of San Miguel Corporation. She was a former associate at the law firm Sycip Salazar Hernandez & Gatmaitan. Atty. Javier-Elacio holds a Bachelor of Arts degree in English (*cum laude*) and a Bachelor of Laws degree from the University of the Philippines, and a master's degree in law from the Kyushu University in Fukuoka, Japan.

Officer Trainings in 2022

All the executive officers of the Company completed a corporate governance seminar for year 2022 conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

(ii) Board Committees; Board and Committee Charters

Pursuant to the new Corporate Governance Manual of the Company approved by the Board on May 8, 2017 (the "Corporate Governance Manual"), the Company has Executive, Audit, Corporate Governance, Risk Oversight, and Related Party Transaction Committees constituted in accordance with Corporate Governance Manual and the Company's By-Laws.

Their respective members were appointed at the organizational meeting held on May 17, 2022.

The Board charter and the charter of each of the board committees were adopted on May 16, 2017.

- **Executive Committee.** The Executive Committee is composed of not less than three (3) members, which shall include the Chairman of the Board of Directors and the President, with two (2) alternate members. The Executive Committee, when the Board of Directors of Directors is not in session, may exercise the powers of the latter in the management of the business and affairs of the Company, except with respect to (a) the approval of any action for which stockholders' approval is also required, (b) the filling of vacancies in the Board of Directors, (c) the amendment or repeal of the by-laws of the adoption of new by-laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable, (e) a distribution of dividends to the stockholders, and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

  As of the date of this Annual Report, the members of the Executive Committee are Mr. Ramon S. Ang, Ms. Aurora T. Calderon, and Mr. Lubin B. Nepomuceno. Mr. John Paul S. Ang and Atty. Virgilio S. Jacinto are the two (2) alternate members of the Executive Committee.

  The Executive Committee held five (5) meetings in 2022, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

Members	January 12	March 18	May 30	August 11	October 25
Ramon S. Ang (Chairperson)	✓	✓	✓	✓	-
Lubin B. Nepomuceno (Member)	✓	✓	✓	✓	✓
Aurora T. Calderon (Member)	✓	✓	✓	✓	✓
Virgilio S. Jacinto (Alternate Member)	-	-	-	-	✓
John Paul L. Ang (Alternate Member)*	-	-	-	-	-

* Alternate member from May 17, 2022 Organizational Meeting

- **Corporate Governance Committee.** The Corporate Governance Committee, created on May 8, 2017, is composed of at least three (3) independent directors as members. The Chairperson of the committee is an independent director.

  The Corporate Governance Committee is tasked to assist the Board of Directors in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices.

As of the date of this Annual Report, the Corporate Governance Committee is chaired by independent director former Chief Justice Artemio V. Panganiban, with independent directors Mr. Margarito B. Teves and Mr. Ricardo C. Marquez, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as members.

In 2022, the Corporate Governance Committee held one (1) meeting, with the following members in attendance:

Members	March 8
Carlos Jericho L. Petilla (Chairperson, Independent Director)*	✓
Artemio V. Panganiban (Independent Director)	✓
Margarito B. Teves (Independent Director)	✓
Estelito P. Mendoza	✓
Virgilio S. Jacinto	✓

*Replaced by Chief Justice Artemio V. Panganiban as Chairman at the May 17, 2022 Organizational Meeting

- **Audit Committee.** The Audit Committee is composed of at least three (3) appropriately qualified non-executive directors, majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or of any other board committee. The members of the Audit Committee are required to have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

  The Audit Committee is responsible for overseeing the senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. The Audit Committee ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

  Among its functions set out in the Corporate Governance Manual and the Audit Committee Charter, the Audit Committee primarily recommends to the Board each year the appointment of the external auditor to examine the accounts of the Company for that year and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.

  As of the date of this Annual Report, the Audit Committee is chaired by independent director Mr. Margarito B. Teves, and its members are independent directors former Chief Justice Artemio V. Panganiban and Mr. Ricardo C. Marquez, Atty. Estelito P. Mendoza, and Ms. Aurora T. Calderon (who is also an accountant). Mr. Ferdinand K. Constantino acted as advisor to the committee.

In 2022, the Audit Committee held four (4) meetings, with attendance as indicated below.

Members	March 8	May 4	August 1	November 8
Margarito B. Teves (Independent Director; Chairperson)	✓	✓	✓	✓
Artemio V. Panganiban (Independent Director)	✓	✓	✓	✓
Carlos Jericho L. Petilla (Independent Director) *	✓	▼	N/A	N/A
Ricardo C. Marquez (Independent Director)	Not yet a committee member	Not yet a committee member	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓
Ferdinand K. Constantino (Advisor)	✓	✓	✓	✓

▼ Absent

* Replaced by Gen. Ricardo C. Marquez as a member at the May 17, 2022 Organizational Meeting

- **Risk Oversight Committee.** The Risk Oversight Committee, created on May 8, 2017, is composed of at least three (3) members, the majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or any other board committee. At least one member of the committee has relevant thorough knowledge and experience on risk and risk management.

  The Risk Oversight Committee that shall be responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness.

  As of the date of this Annual Report, the Risk Oversight Committee is chaired by independent director Mr. Ricardo C. Marquez, with independent director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members. No meeting was held by the Risk Oversight Committee in 2022.

- **Related Party Transaction Committee.** The Related Party Transaction Committee, created on May 8, 2017, is composed of least three (3) non-executive directors, two (2) of whom are independent directors. The Chairperson is an independent director.

  The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Company.

  As of the date of this Annual Report, the Related Party Transaction Committee is chaired by independent director former Chief Justice Artemio V. Panganiban, with independent director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members.

In 2022, the Related Party Transaction Committee held one meeting, with attendance indicated below:

Members	November 8
Artemio V. Panganiban (Independent Director; Chairperson)	✓
Margarito B. Teves (Independent Director)	✓
Aurora T. Calderon	✓

(3) Significant Employees

There was no significant employee or personnel who was not an executive officer but was expected to make a significant contribution to the business.

(4) Family Relationships

Director John Paul L. Ang is the son of Director Ramon S. Ang. Other than this, the Company has no director or executive officer related to any other director or executive officer up to the fourth degree of consanguinity or affinity.

(5) Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by final judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five (5) years until the date of this Annual Report.

(B) Executive Compensation

Standard Arrangements. Petron's executive officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not executive officers are elected for a term of one year. They receive remuneration for 12 months in director's fees and gas allowance, in addition to compensation on a per meeting participation.

Other Arrangements. There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Warrants or Options. There are no warrants or options held by directors or officers.

Employment Contract. In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one year term until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any director elected in the interim will serve for the remaining term until the next annual meeting of the stockholders.

The aggregate compensation paid or estimated to be paid to the executive officers and the aggregate fees and *per diem* allowances paid or estimated to be paid to the directors of the Company during the periods indicated below are as follows (in million pesos):

(a) Name & Principal Position		*(b) Year*	*(c) Salary (including Fee and Per Diem Allowance of Directors)*	*(d) Bonus*	*(e) Other Annual Compensation*
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Susan Y. Yu	President & CEO General Manager SVP / Chief Finance Officer SVP / Chief Risk Officer Vice President -Procurement	2023 (est)	123.44	31.15	1.93
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Ma. Rowena O. Cortez Susan Y. Yu	President & CEO General Manager SVP / Chief Finance Officer Vice President - Supply Vice President -Procurement	2022	114.12	62.01	2.45
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Archie B. Gupalor Susan Y. Yu	President & CEO General Manager SVP / Chief Finance Officer Vice President - Retail Sales Vice President - Procurement	2021	108.33	22.57	2.97
All Other Officers as a Group Unnamed		2023 (est)	98.33	23.79	4.86
		2022	72.67	36.17	3.50
		2021	86.52	16.91	4.28
All Directors as a Group		2023 (est)	17.25	0.00	0.00
		2022	15.46	0.00	0.00
		2021	14.69	0.00	0.00

The Company provides each non-executive directors with reasonable *per diem* of P75,000 and P50,000 for each board and board committee meeting attended, respectively, in addition to monthly fees and monthly fuel allowances. In 2022, the Company paid the following fees to these directors (in thousand pesos):

	Per Diem for Board and Board Committee Meetings	Directors' Fees	Total
John Paul L. Ang	525	608	1,133
Jose P. De Jesus	525	320	845
Ronald W. Haddock	525	608	1,133
Mirzan Bin Mahathir	525	608	1,133
Estelito P. Mendoza	625	441	1,066
Artemio V. Panganiban	825	608	1,433
Margarito B. Teves	825	608	1,433
Nelly F. Villafuerte	525	608	1,133
Horacio C. Ramos	525	608	1,133
Carlos Jericho L. Petilla	250	246	496
Francis H. Jardeleza	525	608	1,133
Ricardo C. Marquez	400	414	814
Aurora T. Calderon	775	608	1,383
Virgilio S. Jacinto	575	608	1,183
TOTAL	**7,950**	**7,505**	**15,455**

Under the Corporate Governance Manual of the Company, the Corporate Governance Committee is tasked with the establishment of a formal and transparent procedure to determine the remuneration of directors and officers that is consistent with the Company's culture and strategy as well as the business environment in which it operates.

On March 8, 2022, the fees of the directors for 2022 were reviewed by the Corporate Governance Committee and favorably endorsed for approval by the Board of Directors and were later approved by the Board of Directors on the same day. The directors' fees were ratified by the stockholders at the 2022 annual stockholders' meeting held on May 17, 2022.

As of the date of this report, the Chairman of the Corporate Governance Committee is independent director former Chief Justice Artemio V. Panganiban and its members are Atty. Estelito P. Mendoza, Atty. Virgilio S. Jacinto, and independent directors Mr. Margarito B. Teves and Mr. Ricardo C. Marquez.

(C) Security Ownership of Certain Beneficial Owners and Management

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2022 is as follows:

- SEA Refinery Corporation - 50.10%
- PCD Nominee Corporation (Filipino) - 19.90%
- San Miguel Corporation - 18.16%

As of March 31, 2023, the security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2022 is as follows:

- SEA Refinery Corporation - 50.10%
- PCD Nominee Corporation (Filipino) - 19.95%
- San Miguel Corporation - 18.16%

SEA Refinery Corporation is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

The Company had no beneficial owner under the PCD Nominee Corporation that held no more than 5% of the common shares of the Company.

The security ownership of directors and officers holding the position of Vice President and up as of March 31, 2023 is as follows:

Directors

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
Directors					
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Series 3A Preferred			-	-	0.00%
Series 3B Preferred			-	-	N.A.

Common	Jose P. De Jesus	Filipino	500 225,000	D I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Horacio C. Ramos	Filipino	500	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Francis H. Jardeleza	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	John Paul L. Ang	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.

Common	Margarito B. Teves	Filipino	500	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Ricardo C. Marquez	Filipino	1,000	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.

Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
Executive Officers					
Common	Emmanuel E. Eraña	Filipino	-	-	0.00%
Series 3A Preferred			-	-	0.00%
Series 3B Preferred			-	-	N.A.
Common	Freddie P. Yumang	Filipino	352,600	I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	791,600	I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			12,000	I	N.A.
Common	Albertito S. Sarte	Filipino	765,500	I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			5,000	I	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Series 3A Preferred			500	I	N.A.
Series 3B Preferred			-	-	N.A.
Common	Jaime O. Lu	Filipino	14,200	I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Maria Rosario D. Vergel de Dios	Filipino	-	-	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B			-	-	N.A.

Preferred					
Common	Magnolia Cecilia D. Uy	Fillipino	-	-	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Myrna C. Geronimo	Filipino	-	-	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			3,000	I	N.A.
Common	Allister J. Go	Filipino	11,030	D	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			300	I	N.A.
Common	Reynaldo V. Velasco, Jr.	Filipino	5,200 17,100	D I	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Virgilio V. Centeno	Filipino	13,200 1,532	D I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			300	I	N.A.
Common	Mark Tristan D. Caparas	Filipino	2,000	I	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Jonathan F. Del Rosario	Filipino	-	-	0.00%
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Lemuel C. Cuezon	Filipino	42,939	D	0.00%
Series 3A Preferred					N.A.
Series 3B Preferred					N.A.
Common	Jhoanna Jasmine M. Javier-Elacio	Filipino	-	-	0.00%
Series 3A Preferred			200	I	N.A.
Series 3B Preferred			-	-	N.A.

Directors and Officers from Vice President and up (including the Corporate Secretary) as a Group	Common	**241,501** **2,025,481** **2,266,982**		**0.00%**
	Series 3A Preferred	**700**		**0.00%**
	Series 3B Preferred	**20,300**		**0.00%**

As of March 31, 2023 (the record date for the Company's 2023 annual stockholders' meeting), the directors and executive officers of the Company owned 2,266,982 common shares, 700 Series 3A Preferred Shares and 20,300 Series 3B Preferred Shares for a total of 2,287,982 or 0.02% of the Company's total outstanding capital stock. No one of the directors and executive officers of the Company directly owns 5% or more of the outstanding capital stock of the Company.

(2) Voting Trust Holders of 5% or more

The Company is not aware of any person holding 5% or more of the Company's outstanding shares under a voting trust agreement.

(3) Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

(D) Certain Relationships and Related Transactions

The major related stockholders of the Company as of December 31, 2022 and March 31, 2023 holding at least 5% of the common stock were as follows:

- SEA Refinery Corporation - 50.10%
- San Miguel Corporation - 18.16%

The basis of control is the number of the percentage of voting shares held by each.

The Company had no transactions or proposed transactions with any of its directors or officers.

Related party transactions are discussed under Part I(A)(2)(viii) (*Transactions with and/or dependence on related parties*).

PART IV – CORPORATE GOVERNANCE AND SUSTAINABILITY

(A) Corporate Governance

Corporate Governance Manual

On May 8, 2017, the Board of Directors approved the new Corporate Governance Manual of the Company primarily based on the Code of Corporate Governance for Publicly-Listed Companies approved by the SEC pursuant to its Memorandum Circular No. 19 (2016). A copy of the Corporate Governance Manual was submitted to the SEC on May 29, 2017.

Various Corporate Policies

For the past years, the Company observed the *San Miguel Corporation and Subsidiaries Whistle-blowing Policy* for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the *Petron Corporation and Subsidiaries Whistle-blowing Policy*. The *Petron Corporation and Subsidiaries Whistle-blowing Policy* provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries (the "Petron Group"). The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

For the past years, the Company also observed the *San Miguel Corporation Policy on Dealings in Securities* for itself and its subsidiaries. On May 6, 2013, the Company likewise adopted the *Petron Corporation Policy on Dealings in Securities*. Under this policy, the directors, officers and employees of the Company are obliged to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code ("SRC"). The policy sets out the conditions and rules under which the directors, officers and employees of the Company should deal in securities of the Company.

Board Assessment and Summary of 2022 Assessment

In August 2013, the Board of Directors adopted a new format for the annual self-assessment by each director of his/her performance and that of the Board of Directors and the board committees.

The self-assessment forms covers the evaluation of the (i) fulfillment of the key responsibilities of the Board of Directors including the consideration of the interests of minority shareholders and stakeholders and their equitable treatment in its decision-making processes, the pursuit of good corporate governance, the establishment of a clear strategic direction for the Company designed to maximize long-term shareholder value, the review and approval of financial statements and budgets, and the appointment of directors who can add value and contribute independent judgment to the formulation of sound policies and strategies of the Company and officers who are competent and highly motivated; (ii) relationship between the Board of Directors and the Management of the Company including having a clear understanding of where the role of the Board of Directors ends and where that of Management begins, the participation of the Board of Directors and the board committees in major business policies or decisions, the continuous interaction with Management for an understanding of the businesses better, and the consideration of the correlation between executive pay and Company performance; (iii) effectiveness of board process and meetings through the adequacy of the frequency, duration and scheduling of board and committee meetings, the ability of the Board of Directors to balance and allocate its time effectively in discussing issues related to the Company's strategy and competitiveness, the attendance at board and committee meetings and the conduct of meetings in a manner that ensures open communication, meaningful participation, and timely resolution of issues, the wide and diverse range of expertise and occupational and personal backgrounds of the directors, and the institutionalization of a formal review process for monitoring the effectiveness of the Board of Directors and the individual directors; and (iv) individual performance of the directors including a director's understanding of the mission, values and strategies of the Company, his/her duties as a director and the Company's Articles, the Company's By-Laws and governing policies and applicable law, rules and regulations, the attendance at meetings and the conscious effort to avoid entering into situations where a director may be placed in a conflict of interest with that of the Company.

All the 15 directors accomplished the annual self-assessment for 2022. The average self-rating by the Directors covering all four (4) topics discussed above was 4.73 (out of a possible 5.0), broken down as follows: (1) Fulfilment of Board Key Responsibilities – The ratings averaged 4.72 based on a series of nine (9) questions; (2) Board-Management Relationship – The ratings averaged 4.71 based on a series of four (4) questions; (3) Effectiveness of Board Processes and Meetings - The ratings averaged 4.73 based on a series of nine (9) questions; and (4) Individual Performance of Directors - The ratings averaged 4.76 based on a series of 10 questions.

Compliance with the Corporate Governance Manual

The Company is in compliance with the provisions of the Corporate Governance Manual.

- Its directors possess all the qualifications and none of the disqualifications of a director under the Corporate Governance Manual, the Company's By-laws and applicable laws and regulations.
- The Company had three (3) independent directors (Retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Ricardo C. Marquez) and a Compliance Officer (Atty. Jhoanna Jasmine M. Javier-Elacio).
- The Company had a Lead Independent Director (Mr. Margarito B. Teves)
- The Company regularly held board meetings and board committee meetings, at which a quorum was always present.
- The Company conducted an orientation seminar on July 22, 2022 for Director Ricardo C. Marquez following his election as a director on May 17, 2022.
- The directors properly discharge their duties and responsibilities as directors and attended a corporate governance seminar.
- Each director accomplished a self-assessment form for 2022.
- The Company has an external auditor.
- The Company has an Internal Audit Department.
- The Company respects and observes the rights of its stockholders under applicable law.
- The Company is in material compliance with laws and regulations applicable to its business operations, including applicable accounting standards and disclosure requirements,

Pursuit of Corporate Governance

As above-discussed, the Company adopted on May 8, 2017 its new Corporate Governance Manual to align with the Code of Corporate Governance for Publicly Listed Company approved by the SEC and which took effect on January 1, 2017.

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance. The Company also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company's corporate objectives and the best interests of its stakeholders and the Company.

To further instill good governance in the Company, the Company will continue to coordinate with accredited providers for the attendance of the directors and officers in more extensive corporate governance programs to keep them updated with the latest developments in and best practices on good corporate governance. The Office of the General Counsel and Corporate Secretary will also continue to periodically release internal memoranda to explain and/or reiterate the Company's corporate governance practices and the latest good corporate governance practices in general.

Integrated Annual Corporate Governance Report ("i-ACGR")

Other matters relating to the governance of the Company are discussed in the i-ACGR of the Company filed with the SEC and posted on the company website.

(B) Sustainability Report

Please find attached as Annex C the Sustainability Report of the Company for 2022.

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"Part V – Exhibits and Schedules" follows on next page]

PART V – EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2022 until the date of this report.

Annexes

1. Annex A - Public Ownership Report as of December 31, 2022
2. Annex B - Public Ownership Report as of March 31, 2023
3. Annex C - 2022 Audited Financial Statements, with the Index to Financial Statements and the Supplementary Schedules and the Statement of Management's Responsibility (Separate and Consolidated)
4. Annex D - 2022 Sustainability Report

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were submitted for year 2022 until the date of this Annual Report:

Date of Report	Item Description
January 11, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 14, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 14, 2022	Approval by the Board Executive Committee to authorize US Dollar-denominated senior notes
January 20, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 20, 2022	Cessation of Ms. Ma. Aileen M. Cupido, Assistant Vice President – Business Planning effective January 20, 2022
January 21, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 31, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 2, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 8, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 15, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 28, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
March 2, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds

March 3, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
March 8, 2022	Matters approved at the board meeting held: A. 2021 Audited Financial Statements of the Company showing that the Company posted a net income of ₱6.14 Billion; B. Approval of directors' fees for 2022 C. Endorsement of the re-appointment of R. G. Manabat & Co./KPMG as external auditor of the Company for 2022 at the annual stockholders' meeting scheduled on May 17, 2022 and approval of its fees for the review of 2022 financial statements of the Company and its subsidiaries D. Annual Stockholders' Meeting, with details attached Date of meeting : May 17, 2022, Tuesday, 2:00 pm Venue : To be livestreamed via a streaming site Record Date : March 22, 2022 Closing of Books : March 22-29, 2022 E. Appointment of the following officers: 1. Mr. Mark Tristan D. Caparas – Vice President, Petron Malaysia CFO 2. Mr. Jonathan F. Del Rosario – Assistant Vice President, Metro Manila and Manufacturing District 3. Ms. Mia S. Delos Reyes – Assistant Vice President, Corporate Affairs 4. Mr. Brian R. Ocampo – Assistant Vice President, Management Information Systems 5. Mr. Alejandro R. Romulo – Assistant Vice President, PBR Technical Services 6. Atty. Jhoanna Jasmine M. Javier-Elacio – OIC General Counsel, Corporate Secretary and Compliance Officer* 7. Atty. Marian Wilma H. Bautista – Assistant Corporate Secretary* * Effective April 1, 2022 Media release on performance also submitted.
March 8, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
March 15, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
March 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
March 29, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds

March 31, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
April 1, 2022	Retirement of Mr. Rolando B. Salonga, Vice President – Operations and Corporate Technical Services Group, and Atty. Joel Angelo C. Cruz, Vice President – General Counsel and Corporate Secretary/Compliance Officer effective end of business of March 31, 2022
April 5, 2022	Advice on the receipt of the Company of the letter of the Market and Securities Regulation Department of the Securities and Exchange Commission dated April 1, 2022 granting the request of the Company for exemptive relief from the requirement under Rule 68 of the Revised Securities Regulation Code that the interim financial statements of the Company for the first quarter of 2022 (the "2022 Q1Reports") be attached to the Definitive Information Statement (the "DIS") for its 2022 Annual Stockholders' Meeting scheduled on May 17, 2022 and the release of the DIS without the 2022 Q1 Reports
April 13, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
April 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
April 29, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
May 4, 2022	Matter approved at the board meeting held: • Year-to-date March 2022 Financial Performance Media release on performance also submitted
May 13, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
May 17, 2022	Matters approved at the annual stockholders' and organizational meetings held: A. Annual Stockholders' Meeting 1. Appointment of R.G. Manabat & Co. as external auditor of the Company for year 2022 and ratification of external auditor fees 2. Election of the following as directors of the Company for 2022-2023: 1. Ramon S. Ang 2. Lubin B. Nepomuceno 3. Estelito P. Mendoza 4. Jose P. De Jesus 5. Ron W. Haddock 6. Mirzan Mahathir 7. Aurora T. Calderon 8. Francis H. Jardeleza 9. Virgilio S. Jacinto 10. Nelly Favis-Villafuerte 11. Horacio C. Ramos 12. John Paul L. Ang

	Independent Directors 1. Artemio V. Panganiban 2. Margarito B. Teves 3. Ricardo C. Marquez 3. Ratification of Directors' fees for 2022 4. Approval of the Management Report and the Audited Financial Statements for the year-ended December 31, 2021 5. Ratification of all acts of the Board of Directors and Management since the 2021 Annual Stockholders' Meeting B. Organizational Meeting 1. Appointment of the following as members of the board committees and lead independent director: **Executive Committee** Ramon S. Ang - Chairman Lubin B. Nepomuceno - Member Aurora T. Calderon - Member John Paul L. Ang - Alternate Member Virgilio S. Jacinto - Alternate Member **Audit Committee** Margarito B. Teves - Chairman (Independent Directo Artemio V. Panganiban - Member (Independent Director) Ricardo C. Marquez - Member (Independent Director) Estelito P. Mendoza - Member Aurora T. Calderon - Member Ferdinand K. Constantino - Advisor **Risk Oversight Committee** Ricardo C. Marquez - Chairman (Independent Directo Margarito B. Teves - Member (Independent Director) Aurora T. Calderon - Member **Corporate Governance Committee** Artemio V. Panganiban - Chairman (Independent Directo Margarito B. Teves - Member (Independent Director) Ricardo C. Marquez - Member (Independent Director) Estelito P. Mendoza - Member Virgilio S. Jacinto - Member **Related Party Transaction Committee** Artemio V. Panganiban - Chairman (Independent Directo Margarito B. Teves - Member (Independent Director) Aurora T. Calderon - Member

Lead Independent Director

Margarito B. Teves

2. Election of the following as officers of the Company for 2022-2023:

Name	Position
Ramon S. Ang	President & CEO
Lubin B. Nepomuceno	General Manager
Emmanuel E. Eraña	SVP & Chief Finance Officer
Susan Y. Yu	VP, Procurement
Maria Rowena O. Cortez	VP, Supply
Albertito S. Sarte	Deputy Chief Finance Officer and Treasurer
Jaime O. Lu	VP & Executive Assistant to the Presider on Petron Malaysia Operations, Refinery Special Projects and REND
Maria Rosario D. Vergel de Dios	VP, Human Resources Management
Magnolia Cecilia D. Uy	VP, Retail Sales
Myrna C. Geronimo	VP, Controllers
Allister J. Go	VP, Refinery Division
Reynaldo V. Velasco, Jr.	VP, Refinery Plant Operations (Producti A and B)
Virgilio V. Centeno	VP, Industrial Sales
Mark Tristan D. Caparas	VP, Petron Malaysia CFO
Noel S. Ventigan	AVP, Special Assignment
Terelu O. Carrillo	AVP, Supply Trading & Risk Management
Ronaldo T. Ferrer	AVP, Internal Audit
Fe Irma A. Ramirez	AVP, Supply Optimization, Commercial Services & Synergy
Jacqueline A. Chai	AVP, Procurement
Agnes Grace P. Perez	AVP/Head, Business Planning and Development
Leon G. Pausing II	AVP, Commercial Sales
Ferdinando H. Enriquez	AVP, Thermal Power Plant and Refinery Solid Fuel-Fired Boiler/
John Ronald S. Pineda	AVP, Special Projects
Francisco Rizal G. Bumagat, Jr.	AVP, PBR Production B
Lemuel C. Cuezon	AVP, Head, Marketing Division
Michael D. Flores	AVP, Service Station
Jonathan F. Del Rosario	AVP, Operations & CTSG OIC
Mia S. Delos Reyes	AVP, Corporate Affairs
Brian R. Ocampo	AVP, Management Information Systems
Alejandro R. Romulo	AVP, PBR Technical Services

	Jhoanna Jasmine M. Javier-Elacio — General Counsel & Corporate Secretary/Compliance Officer Marian Wilma H. Bautista — Assistant Corporate Secretary
May 20, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
May 31, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 8, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 16, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 27, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 30, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
June 30, 2022	Retirement of Mr. Ronaldo T. Ferrer, Assistant Vice President – Internal Audit, effective of business of June 30, 2022.
July 5, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
July 8, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
July 15, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
July 20, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
July 20, 2022	Cessation of Atty. Marian Wilma H. Bautista as Assistant Corporate Secretary effective end of business of July 20, 2022
July 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
July 29, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
August 1, 2022	Matters approved at the board meeting held: 1. First Semester 2022 Financial Statements 2. Cash dividends for preferred shareholders 3. Amendment of the Company’s primary purpose under its Articles of Incorporation to include biofuels and authorization of the Company to obtain the written assent of stockholders of record as of August 6, 2022 (with the closing of books from August 16-23, 2022) 4. Ratification of the appointment of Ms. Liane Mel C. Apilado as Internal Audit Head of the Company effective July 1, 2022, upon the endorsement of the Board Audit Committee 5. Use of all the foreign-sourced dividends of the Company for 2022 for working capital requirements 6. Ratification and confirmation of the following matter approved by the Executive Committee: • Bilateral Term Loans with China Banking Corporation, Land

<table>
<tr><td></td><td>Bank of the Philippines, and BDO Unibank Inc.

Media release on performance also submitted.</td></tr>
<tr><td>August 8, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>August 9, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>August 15, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>August 22, 2022</td><td>Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron targets to spend up to P15B annually in next 3 years”</td></tr>
<tr><td>August 23, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>September 8, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>September 9, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>September 13, 2022</td><td>Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>September 14, 2022</td><td>[Amended] Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds</td></tr>
<tr><td>September 14, 2022</td><td>Filing of Certificates of Attendance of the following directors and key officers at the Corporate Governance Seminar held via remote communication through MS Teams:

Date: September 7, 2022, Wednesday
Time: 1:30 pm to 4:30 pm
Provider: SGV & Co.
Topics: Workforce Reimagined and
New Developments in Climate Risk and
Decarbonization

<table>
<tr><th>Name</th><th>Position</th></tr>
<tr><td>1. Lubin B. Nepomuceno</td><td>Director/General Manager</td></tr>
<tr><td>2. Jose P. De Jesus</td><td>Director</td></tr>
<tr><td>3. Ron W. Haddock</td><td>Director</td></tr>
<tr><td>4. Mirzan Mahathir</td><td>Director</td></tr>
<tr><td>5. Francis H. Jardeleza</td><td>Director</td></tr>
<tr><td>6. Virgilio S. Jacinto</td><td>Director</td></tr>
<tr><td>7. Nelly Favis-Villafuerte</td><td>Director</td></tr>
<tr><td>8. Horacio C. Ramos</td><td>Director</td></tr>
<tr><td>9. John Paul L. Ang</td><td>Director</td></tr>
<tr><td>10. Margarito B. Teves</td><td>Lead Independent Director</td></tr>
<tr><td>11. Ricardo C. Marquez</td><td>Independent Director</td></tr>
<tr><td>12. Emmanuel E. Eraña</td><td>Senior Vice President and Chief Finance Officer</td></tr>
<tr><td>13. Susan Y. Yu</td><td>Vice President, Procurement</td></tr>
<tr><td>14. Maria Rowena O. Cortez</td><td>Vice President, Supply</td></tr>
<tr><td>15. Albertito S. Sarte</td><td>Deputy Chief Finance Officer and Treasurer</td></tr>
</table></td></tr>
</table>

		16. Jaime O. Lu	Vice President and Executive Assistant to the President on Petron Malaysia Operations, Refinery Special Projects and Retail Engineering and Network Development
		17. Maria Rosario D. Vergel De Dios	Vice President, Human Resources Management
		18. Magnolia Cecilia D. Uy	Vice President, Retail Sales
		19. Myrna C. Geronimo	Vice President, Controllers
		20. Allister J. Go	Vice President, Refinery Division
		21. Reynaldo V. Velasco, Jr.	Vice President, Refinery Plant Operations (Production A and B)
		22. Virgilio V. Centeno	Vice President, Industrial Sales
		23. Mark Tristan D. Caparas	Vice President, Petron Malaysia Chief Finance Officer
		24. Jhoanna Jasmine M. Javier-Elacio	General Counsel and Corporate Secretary/Compliance Officer
		25. Liane Mel C. Apilado	Internal Audit Head
September 16, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
September 26, 2022	Filing of Certificate of Attendance of Director Chief Justice Artemio V. Panganiban in Corporate Governance Seminar held on September 22, 2022		
September 29, 2022	Filing of Certificate of Attendance of Director Aurora T. Calderon in Corporate Governance Seminar held on September 23, 2022		
September 30, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
October 5, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
October 7, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
October 11, 2022	Advice on the report received by the Company's stock transfer agent, SMC Stock Transfer Service Corporation, that the written assent of stockholders representing 75.9306% of the total outstanding capital stock of the Company (more than the minimum required stockholder written assent), with 0% voting against the proposal, has been received in relation to the Company's solicitation for stockholders' written assent to the proposed amendment of the primary purpose under the Amended Articles of Incorporation of the Company to include biofuels.		
October 14, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
October 21, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
November 7, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds		
November 8, 2022	Matters approved at the board meeting held: 1. Year-to-date September 2022 Financial Statements 2. Cash dividends for the preferred shareholders 3. Approval of material related party transactions for 2023 4. Approval of the amendment of the Company Retirement Plan		

	5. Ratification and confirmation of the following matters approved by the Executive Committee: • Bilateral Term Loan with China Banking Corporation • Renewal of License Application with the Philippine Drug Enforcement Agency • Syndicated USD Term Loan • Propylene Transfer Pipeline Project • Additional Investment in Mema Holdings, Inc. Media release on performance also submitted
November 8, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
November 15, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
November 17, 2022	Filing of Certificates of Attendance of President and Chief Executive Officer, and Director Ramon S. Ang, and Director Estelito P. Mendoza in Corporate Governance Seminar held on November 11, 2022
November 28, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
November 29, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
December 5, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
December 7, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
December 15, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
December 22, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
December 29, 2022	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 4, 2023	Advice that the Company intended to make an announcement in the Singapore Exchange Securities Trading Limited (“SGX-ST”) on its proposed tender offer to purchase up to U.S.$50,000,000 of its outstanding U.S.$500,000,000 Senior Perpetual Capital Securities (ISIN: XS1740858540; Common Code: 174085854), subject to certain conditions.
January 6, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 13, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 13, 2023	Further to related disclosure dated January 4, 2023, advice that the period for the tender offer conducted by Petron Corporation (the “Company”) to purchase up to U.S.$50,000,000 of its outstanding U.S.$500,000,000 Senior Perpetual Capital Securities (ISIN: XS1740858540; Common Code: 174085854) (the “Securities” and, the tender offer to purchase such Securities, the “Tender Offer”) that are listed with the Singapore Exchange Securities Trading Limited (“SGX-ST”) ended on January 12, 2023. Accordingly, the Company intended to make an announcement in the SGX-ST relating to the results of the Tender Offer

January 20, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
January 31, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
February 15, 2023	Matter approved at the board meeting held: 1. 2023 Operating Budget 2. Appointment of Mr. Freddie P. Yumang as Senior Vice President – Chief Risk Officer effective January 1, 2023 3. Ratification and confirmation of the following matter approved by the Executive Committee: • Tender Offer for Purchase of the Company's Existing Senior Perpetual Capital Securities
March 6, 2023	Matters approved at the board meeting held: 1. 2022 Audited Financial Statements 2. Cash dividend for the common shareholders 3. Election of officers • Mr. Jonathan F. Del Rosario – Vice President for Operations and Corporate Technical Services Group (effective April 1, 2023) • Mr. Lemuel C. Cuezon – Vice President for Marketing • Atty. Jhoanna Jasmine M. Javier-Elacio – Assistant Vice President – General Counsel and Corporate Secretary/Compliance Officer • Mr. Andrew F. Tan – Assistant Vice President for LPG Business • Mr. Arnel Roman M. Atienza – Assistant Vice President for Luzon Provincial Operations • Mr. Gildo P. Destreza – Assistant Vice President for Metro Manila and Manufacturing District 4. Approval of the public offer and issuance of preferred shares of up to P50 billion, with features to be determined by Management, including the conduct of a written assent solicitation from stockholders with a record date of March 20, 2023 and closing of books by March 20-24, 2023 5. Approval of directors' fees for 2023 6. Endorsement of the re-appointment of R. G. Manabat & Co./KPMG as external auditor of the Company for 2023 at the annual stockholders' meeting scheduled on May 16, 2023 and approval of its fees for the review of the 2023 financial statements of the Company and its subsidiaries 7. Annual Stockholders' Meeting Date of meeting : May 16, 2023, Tuesday, 2:00 pm Venue : To be livestreamed via a streaming site

	Record Date : March 20, 2023 Closing of Books : March 20-24, 2023
March 17, 2023	Further to disclosure dated March 6, 2023, advice on the filing of the Company on March 17, 2023 with the Securities and Exchange Commission a registration statement for the shelf registration of up to 50,000,000 preferred shares of the Company. The initial tranche to be offered and sold shall be 20,000,000 preferred shares, with an oversubscription option of up to 10,000,000 preferred shares. The preliminary prospectus and its offer supplement are available in the company website.
March 23, 2023	Advice on the receipt of the Company of the letter of the Market and Securities Regulation Department of the SEC ("SEC MSRD") dated March 23, 2023 advising Petron Corporation (the "Company") that the SEC MSRD has granted the requests of the Company for exemptive relief from the requirement under Rule 68 of the Revised Securities Regulation Code ("Revised SRC Rule 68") that the interim financial statements of the Company for the first quarter of 2023 (the "2023 Q1 Reports") be attached to the Definitive Information Statement (the "DIS") for its 2023 Annual Stockholders' Meeting scheduled on May 16, 2023 and the release of the DIS without the 2023 Q1 Reports.
April 3, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds
April 4, 2023	Advice on the report received by the Company's stock transfer agent, SMC Stock Transfer Service Corporation, that the written assent of stockholders representing 73.17% of the total outstanding capital stock of the Company (more than the minimum required stockholder written assent), with 0% voting against the proposal, has been received in relation to the Company's solicitation for stockholders' written assent to the proposed listing with the Philippine Stock Exchange of up to 30,000,000 Series 4 preferred shares of the Company.
April 12, 2023	Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds

<u>Press Releases</u>

The following press releases were made for year 2022 until the date of this Annual Report:

March 8, 2022	"Petron remains on steady path to recovery; closes 2021 with P6.14 billion net income"
May 4, 2022	"Petron reports strong Q1 results; posts P3.6 billion net income, double Q1 last year"
August 1, 2022	"Petron doubles consolidated net income in H1 2022"
November 8, 2022	"Petron remains on track to recovery; reports P8.2 billion net income in first nine months"
March 6, 2023	"Petron marks two straight years of growth; reports P6.7B net income in 2022"
March 8, 2022	"Petron remains on steady path to recovery; closes 2021 with P6.14 billion net income"

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and of the Revised Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, on April 17 , 2023.

RAMON S. ANG
President and Chief Executive Officer

JHOANNA JASMINE M. JAVIER-ELACIO
Corporate Secretary

LUBIN B. NEPOMUCENO
General Manager

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

MYRNA C. GERONIMO
Vice President and Controller

SUBSCRIBED AND SWORN to before me this 17th of April 2023 at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

Name	Passport Number	Date of Issue (mm-dd-yy)	Place of Issue
Ramon S. Ang			
Lubin B. Nepomuceno			
Emmanuel E. Eraña			
Myrna C. Geronimo			
Jhoanna Jasmine M. Javier-Elacio			

Doc. No. 263;
Page No. 54;
Book No. II;
Series of 2023.

MARIA CRISSELDA T. TORCUATOR
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-23
Until December 31, 2024
Attorney's Roll No. 71094
PTR No. 5113009/01-03-2023/Mandaluyong
IBP No. 268623/01-04-2023/RSM
MCLE Compliance No. VII-0021478/06-17-2022

ANNEX A

Public Ownership Report as of December 31, 2022

PETRON

PCOR

PUBLIC OWNERSHIP REPORT

Report Date: December 31, 2022

Computation of Public Ownership

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

Less:

A. Directors

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000	0	1,000	0.0000%
Lubin B. Nepomuceno	5,000	0	5,000	0.0001%
Estelito P. Mendoza	1,000	0	1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Ron W. Haddock	1	0	1	0.0000%
Mirzan Mahathir	1,000	0	1,000	0.0000%
Aurora T. Calderon	1,000	0	1,000	0.0000%
Francis H. Jardeleza	1,000	0	1,000	0.0000%
Virgilio S. Jacinto	1,000	0	1,000	0.0000%
Nelly Favis-Villafuerte	1,000	0	1,000	0.0000%
Horacio C. Ramos	500	0	500	0.0000%
John Paul L. Ang	1,000	0	1,000	0.0000%
Artemio V. Panganiban	1,000	0	1,000	0.0000%
Margarito B. Teves	500	0	500	0.0000%
Ricardo C. Marquez	1,000	0	1,000	0.0000%

B. Officers

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang (same as above)			0	0.0000%
Lubin B. Nepomuceno (same as above)			0	0.0000%
Emmanuel E. Erana	0	0	0	0.0000%
Susan Y. Yu	0	791,600	791,600	0.0084%
Rowena O. Cortez	8,580	0	8,580	0.0001%

Albertito S. Sarte	0	765,500	765,500	0.0082%
Jaime O. Lu	0	14,200	14,200	0.0002%
Ma. Rosario D. Vergel de Dios	0	0	0	0.0000%
Magnolia Cecilia D. Uy	0	0	0	0.0000%
Myrna C. Geronimo	0	0	0	0.0000%
Allister J. Go	11,030	0	11,030	0.0001%
Reynaldo V. Velasco, Jr.	5,200	17,100	22,300	0.0002%
Virgilio V. Centeno	13,200	1,532	14,732	0.0002%
Mark Tristan D. Caparas	0	2,000	2,000	0.0000%
Jhoanna Jasmine M. Javier-Elacio	0	0	0	0.0000%

C. Principal / Substantial Stockholders

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564	0	4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560	0	1,702,870,560	18.16%

D. Affiliates

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Petron Corporation Employees' Retirement Fund (PCERP)	459,156,097	0	459,156,097	4.90%

E. Government

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

F. Banks

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

G. Employees

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

H. Lock-Up Shares

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	9,497,197	0	9,497,197	0.1013%

I. Others

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

Number of Listed Common Shares *	9,375,104,497
Total Number of Non-Public Shares	6,870,280,861
Total Number of Shares Owned by the Public	2,504,823,636
Public Ownership Percentage	26.72%

* As indicated in the PSE website

ANNEX B

Public Ownership Report as of March 31, 2023

PCOR

PUBLIC OWNERSHIP REPORT

Report Date: March 31, 2023

Computation of Public Ownership

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

Less:

A. Directors

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Aurora T. Calderon	1,000		1,000	0.0000%
Francis H. Jardeleza	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%
Horacio C. Ramos	500		500	0.0000%
John Paul L. Ang	1,000		1,000	0.0000%
Artemio V. Panganiban	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Ricardo C. Marquez	1,000		1,000	0.0000%

B. Officers

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang (same as above)			0	0.0000%
Lubin B. Nepomuceno (same as above)			0	0.0000%
Emmanuel E. Eraña			0	0.0000%
Freddie P. Yumang	0	352,600	352,600	0.0038%
Susan Y. Yu		791,600	791,600	0.0084%

Rowena O. Cortez	8,580		8,580	0.0001%
Albertito S. Sarte		765,500	765,500	0.0082%
Jaime O. Lu		14,200	14,200	0.0002%
Ma. Rosario D. Vergel de Dios			0	0.0000%
Magnolia Cecilia D. Uy			0	0.0000%
Myrna C. Geronimo			0	0.0000%
Allister J. Go	11,030		11,030	0.0001%
Reynaldo V. Velasco, Jr.	5,200	17,100	22,300	0.0002%
Virgilio V. Centeno	13,200	1,532	14,732	0.0002%
Mark Tristan D. Caparas	0	2,000	2,000	0.0000%
Jonathan F. del Rosario	0	0	0	0.0000%
Lemuel C. Cuezon	42,939	0	42,939	0.0005%
Jhoanna Jasmine M. Javier-Elacio	0	0	0	0.0000%

C. Principal / Substantial Stockholders

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

D. Affiliates

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Petron Corporation Employees' Retirement Fund (PCERP)	459,156,097		459,156,097	4.90%

E. Government

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

F. Banks

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

G. Employees

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

H. Lock-Up Shares

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	9,661,088	0	9,661,088	0.1031%

I. Others

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
0	0	0	0	0

Number of Listed Common Shares *	9,375,104,497
Total Number of Non-Public Shares	6,870,840,291
Total Number of Shares Owned by the Public	2,504,264,206
Public Ownership Percentage	26.71%

* As indicated in the PSE website

ANNEX C

2022 Audited Financial Statements, with Statement of Management's Responsibility

(Separate Financial Statements and Consolidated Financial Statements)

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307 Metro Manila Philippines
Tel: (632) 818-0921 Fax: (632) 818-5293 Email: mis@sec.gov.ph

The following document has been received:

Receiving: Jojit Licudine
Receipt Date and Time: March 16, 2023 08:16:56 PM

Company Information

SEC Registration No.: 0000031171
Company Name: Petron Corporation
Industry Classification: E40200
Company Type: Stock Corporation

Document Information

Document ID: OST1031620238964519
Document Type: Financial Statement
Document Code: FS
Period Covered: December 31, 2022
Submission Type: Parent
Remarks: None

Acceptance of this document is subject to review of forms and contents

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3 1 1 7 1

COMPANY NAME

P E T R O N   C O R P O R A T I O N

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

S M C   H e a d   O f f i c e   C o m p l e x
4 0   S a n   M i g u e l   A v e n u e
M a n d a l u y o n g   C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 2010, 2014 and 2020

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
contactus@petron.com	8-884-9200	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
144,388 as of December 31, 2022	May 16, 2023	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
MYRNA C. GERONIMO	mcgeronimo@ petron.com	8-884-9200 loc 49189	

CONTACT PERSON's ADDRESS

SMC Head Office Complex, 40 San Miguel Avenue, Makati City

***Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

PETRON

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation** (the "Company") is responsible for the preparation and fair presentation of the separate financial statements including the schedules attached therein, for the years ended **December 31, 2022 and 2021**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors (the "Board") is responsible for overseeing the Company's financial reporting process.

The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

RAMON S. ANG
President, Chief Executive Officer and Acting Chairman

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 6th day of March 2023

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PETRON CORPORATION, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines
PO Box 014 MCPO 0708 Tel.: (632) 8-884-9200 • Pandacan Terminal, Jesus St., Pandacan, Manila Tel.: (632) 8-563-8526 to 32 • Mandaue Terminal, Looc, Mandaue City, Cebu Tel.: (032) 344-7341 • Davao Depot, Km. 9, Bo. Pampanga, Davao City Tel.: (082) 234-2185 / 233-0399 • Internet: http://www.petron.com

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 0 6 2023, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Ramon S. Ang		
Emmanuel E. Eraña		

Doc. No. 72;
Page No. 16;
Book No. II;
Series of 2023

MARIA CRISSELDA T. TORCUATOR
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-23
Until December 31, 2024
Attorney's Roll No. 71094
PTR No. 5113009/01-03-2023/Mandaluyong
IBP No. 268623/01-04-2023/RSM
MCLE Compliance No. VII-0021478/06-17-2022

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PETRON CORPORATION

SEPARATE FINANCIAL STATEMENTS
December 31, 2022 and 2021

With Independent Auditors' Report

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Opinion

We have audited the separate financial statements of Petron Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2022 and 2021, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2022 and 2021, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

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Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

The engagement partner on the audit resulting in this independent auditors' report is Rohanie C. Galicia.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited the accompanying separate financial statements of Petron Corporation (the "Company"), as at and for the year ended December 31, 2022, on which we have rendered our report dated March 16, 2023.

In compliance with Revenue Regulations V-20, we are stating that no partner of our firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years covering the audit of 2022 to 2026 financial statements
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BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

PETRON CORPORATION
SEPARATE STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousand Pesos)

	Note	December 31 2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 33, 34*	**P26,989,260**	P27,153,625
Financial assets at fair value	*6, 13, 33, 34*	**1,426,368**	861,511
Trade and other receivables - net	*4, 7, 27, 33, 34*	**53,092,113**	30,311,296
Inventories - net	*4, 8*	**67,277,154**	54,120,697
Other current assets	*13, 27*	**36,513,090**	30,809,618
Total Current Assets		185,297,985	143,256,747
Noncurrent Assets			
Property, plant and equipment - net	*4, 10, 12, 36*	**144,147,212**	146,332,844
Right-of-use assets - net	*4, 11*	**4,976,644**	5,229,412
Investments and advances - net	*4, 9, 33, 34*	**36,399,660**	35,221,695
Investment property - net	*4, 10, 12*	**10,511,986**	11,716,304
Deferred tax assets - net	*26*	**1,395,572**	1,820,899
Other noncurrent assets - net	*4, 6, 13, 33, 34*	**642,956**	749,580
Total Noncurrent Assets		**198,074,030**	201,070,734
		P383,372,015	P344,327,481
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*14, 32, 33, 34*	**P122,355,000**	P94,207,500
Liabilities for crude oil and petroleum products	*15, 27, 30, 33, 34*	**23,438,723**	21,566,465
Trade and other payables	*16, 27, 32, 33, 34, 38*	**18,462,846**	9,771,433
Lease liability - current portion	*4, 30, 32, 33*	**1,083,101**	1,057,165
Derivative liabilities	*33, 34*	**323,455**	574,993
Current portion of long-term debt - net	*17, 32, 33, 34*	**13,399,136**	21,580,270
Total Current Liabilities		**179,062,261**	148,757,826
Noncurrent Liabilities			
Long-term debt - net of current portion	*17, 32, 33, 34*	**93,661,890**	81,065,482
Retirement benefits liability	*29*	**2,272,047**	2,428,848
Lease liability - net of current portion	*4, 30, 32, 33*	**13,972,931**	14,734,970
Asset retirement obligation	*4, 18*	**3,274,115**	2,670,930
Other noncurrent liabilities	*19, 27, 33, 34*	**934,099**	990,441
Total Noncurrent Liabilities		**114,115,082**	101,890,671
Total Liabilities		**293,177,343**	250,648,497

Forward

	Note	December 31 2022	2021
Equity	*20*		
Capital stock		**P9,485,104**	P9,485,104
Additional paid-in capital		**37,500,314**	37,500,314
Capital securities		**62,712,253**	62,712,253
Retained earnings		**14,097,548**	17,151,116
Equity reserves		**(15,600,547)**	(15,169,803)
Treasury stock		**(18,000,000)**	(18,000,000)
Total Equity		**90,194,672**	93,678,984
		P383,372,015	P344,327,481

See Notes to the Separate Financial Statements.

PETRON CORPORATION
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos, Except Per Share Amounts)

		Years Ended December 31	
	Note	**2022**	2021
SALES	*27, 36*	**P430,733,719**	P237,067,824
COST OF GOODS SOLD	*21*	**408,761,134**	217,766,412
GROSS PROFIT		**21,972,585**	19,301,412
SELLING AND ADMINISTRATIVE EXPENSES	*22*	**(10,405,325)**	(9,664,600)
OTHER OPERATING INCOME	*4, 28*	**549,949**	453,855
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*25*	**(12,291,576)**	(9,723,373)
INTEREST INCOME	*25*	**800,491**	588,337
OTHER INCOME - Net	*25*	**2,807,815**	1,669,614
		(18,538,646)	(16,676,167)
INCOME BEFORE INCOME TAX		**3,433,939**	2,625,245
INCOME TAX BENEFIT (EXPENSE)	*26, 35*	**(897,779)**	41,987
NET INCOME		**2,536,160**	2,667,232
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to profit or loss			
Equity reserve for retirement plan	*29*	**(647,212)**	(673,337)
Income tax benefit (expense)	*26*	**161,803**	(194,196)
		(485,409)	(867,533)
Item that may be reclassified to profit or loss			
Income on cash flow hedges	*34*	**72,887**	213,160
Income tax expense	*26*	**(18,222)**	(64,193)
		54,665	148,967
OTHER COMPREHENSIVE LOSS - Net of tax		**(430,744)**	(718,566)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax		**P2,105,416**	P1,948,666
BASIC/DILUTED LOSS PER SHARE	*31*	**(P0.33)**	(P0.24)

See Notes to the Separate Financial Statements.

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PETRON CORPORATION
SEPARATE STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousand Pesos)

Years Ended December 31

					Retained Earnings		Equity Reserves			
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserves for Retirement Plan	Other Reserves	Treasury Stock	Total
As of December 31, 2021		P9,485,104	P37,500,314	P62,712,253	P7,000,000	P10,151,116	(P5,942,953)	(P9,226,850)	(P18,000,000)	P93,678,984
Net income on cash flow hedges - net of tax	34	-	-	-	-	-	-	54,665	-	54,665
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(485,409)	-	-	(485,409)
Other comprehensive income (loss)		-	-	-	-	-	(485,409)	54,665	-	(430,744)
Net income for the year		-	-	-	-	2,536,160	-	-	-	2,536,160
Total comprehensive income (loss) or the year		-	-	-	-	2,536,160	(485,409)	54,665	-	2,105,416
Cash dividends	20	-	-	-	-	(1,043,906)	-	-	-	(1,043,906)
Distributions paid	20	-	-	-	-	(4,545,822)	-	-	-	(4,545,822)
Transactions with owners		-	-	-	-	(5,589,728)	-	-	-	(5,589,728)
As of December 31, 2022		**P9,485,104**	**P37,500,314**	**P62,712,253**	**P7,000,000**	**P7,097,548**	**(P6,428,362)**	**(P9,172,185)**	**(P18,000,000)**	**P90,194,672**

Forward

Years Ended December 31

	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves		Treasury Stock	Total
					Appropriated	Unappropriated	Reserves for Retirement Plan	Other Reserves		
As of December 31, 2020		P9,485,104	P37,500,314	P36,481,436	P15,000,000	P4,420,428	(P5,075,420)	(P9,375,817)	(P15,122,320)	P73,313,725
Net income on cash flow hedges - net of tax	*34*	-	-	-	-	-	-	148,967	-	148,967
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(867,533)	-	-	(867,533)
Other comprehensive income (loss)		-	-	-	-	-	(867,533)	148,967	-	(718,566)
Net income for the year		-	-	-	-	2,667,232	-	-	-	2,667,232
Total comprehensive income (loss) or the year		-	-	-	-	2,667,232	(867,533)	148,967	-	1,948,666
Reversal of appropriation for capital projects	*20*	-	-	-	(8,000,000)	8,000,000	-	-	-	-
Cash dividends	*20*	-	-	-	-	(1,899,052)	-	-	-	(1,899,052)
Distributions paid	*20*	-	-	-	-	(3,037,492)	-	-	-	(3,037,492)
Issuance of capital securities	*20*	-	-	26,230,817	-	-	-	-	-	26,230,817
Redemption of preferred shares	*20*	-	-	-	-	-	-	-	(2,877,680)	(2,877,680)
Transactions with owners		-	-	26,230,817	(8,000,000)	3,063,456	-	-	(2,877,680)	18,416,593
As of December 31, 2021		P9,485,104	P37,500,314	P62,712,253	P7,000,000	P10,151,116	(P5,942,953)	(P9,226,850)	(P18,000,000)	P93,678,984

See Notes to the Separate Financial Statements.

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PETRON CORPORATION
SEPARATE STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

		Years Ended December 31	
	Note	**2022**	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P3,433,939**	P2,625,245
Adjustments for:			
Interest expense and other financing charges	*25*	**12,291,576**	9,723,373
Depreciation and amortization	*24*	**9,639,089**	8,034,314
Unrealized foreign exchange losses - net		**663,891**	2,790,784
Retirement benefits costs	*29*	**293,760**	211,533
Marked-to-market and hedging gains - net	*25*	**(591,686)**	(134,312)
Interest income	*25*	**(800,491)**	(588,337)
Other gains - net	*9, 25*	**(1,605,955)**	(5,056,863)
Operating income before working capital changes		**23,324,123**	17,605,737
Changes in noncash assets, certain current liabilities and others	*32*	**(32,420,275)**	(13,206,735)
Cash generated from (used in) operations		**(9,096,152)**	4,399,002
Interest paid		**(11,286,559)**	(9,042,042)
Contribution to retirement fund	*29*	**(900,000)**	(810,000)
Income taxes paid		**(18,209)**	(4,469)
Interest received		**688,662**	610,656
Net cash flows used in operating activities		**(20,612,258)**	(4,846,853)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	*10*	**(4,258,974)**	(7,429,496)
Additions to investment properties	*12*	**(398,436)**	(385,772)
Additional investment in a subsidiary	*9*	**(1,003,264)**	(312,087)
Proceeds from disposal of long-term advances		**189,533**	174,678
Increase in other noncurrent assets		**(157,496)**	(117,056)
Proceeds from sale of property and equipment		**7,919**	36,754
Net cash flows used in investing activities		**(5,620,718)**	(8,032,979)

Forward

	Note	2022	2021
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans, bonds and advances	*32*	**P293,523,072**	P204,407,553
Payments of:			
Loans and bonds	*32*	**(261,399,195)**	(202,352,827)
Lease liabilities	*28, 32*	**(2,259,353)**	(2,259,090)
Cash dividends	*20, 32*	**(1,402,240)**	(1,575,038)
Distributions to holders of capital securities	*20, 32*	**(4,545,822)**	(3,037,492)
Issuance of capital securities	*20*	**-**	26,230,817
Redemption of preferred shares	*20*	**-**	(2,877,680)
Net cash flows provided by financing activities		**23,916,462**	18,536,243
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**2,152,149**	1,291,560
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(164,365)**	6,947,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**27,153,625**	20,205,654
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P26,989,260**	P27,153,625

See Notes to the Separate Financial Statements.

PETRON CORPORATION
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
(Amounts in Thousand Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

Petron Corporation (the "Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Company's corporate term to December 22, 2066. Under its Articles of Incorporation (AOI), the Company has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Pursuant to the Revised Corporation Code of the Philippines, which took effect in February 2019, the Company shall have a perpetual existence because the Company did not elect to retain its specific corporate term under its AOI.

Petron is the only oil refining and the leading marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

The Company operates the modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron's refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals and facilities strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With around 1,900 service stations and hundreds of industrial accounts, Petron remains the leader in the Philippine fuel market. The Company retails gasoline and diesel to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network. In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives the Company the capability to formulate unique additives suitable for the driving conditions in the Philippines. The Company also has a facility in Mariveles, Bataan where the refinery's propylene production is converted into higher-value polypropylene resin.

The Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2022, the Company's public float stood at 26.72%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investment Holdings, Inc. (TF). Both companies are incorporated in the Philippines.

The registered office address of Petron is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance

The accompanying separate financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial and Sustainability Reporting Standards Council (FSRSC).

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with PFRS. These may be obtained at the Company's registered office address (Note 1).

The separate financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 6, 2023.

Basis of Measurement

The separate financial statements of the Company have been prepared on the historical cost basis of accounting except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Bases
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The separate financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information presented in Philippine peso is rounded off to the nearest thousand (P000), except when otherwise indicated.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards

The FSRSC approved the adoption of a number of amended standards as part of PFRS.

The Company has adopted the following PFRS effective January 1, 2022 and accordingly, changed its accounting policies in the following areas:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16, *Leases*). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of an entity's ordinary activities, the amendments require the entity to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the separate statements of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the separate statements of comprehensive income.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards, of which the following are applicable to the Company:

  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *Financial Instruments*). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

- Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

▪ Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

- replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirement;

- added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The adoption of the amended standards did not have a material effect on the separate financial statements.

<u>New and Amended Standards Not Yet Adopted</u>

A number of new and amended standards are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the separate financial statements. None of these are expected to have a significant effect on the separate financial statements.

The Company will adopt the following new and amended standards on the respective effective dates:

▪ Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

  - provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and

  - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16 *Leases*). The amendments confirm the following:

  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

  - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

  A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. A seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into on or after the date of initial application of PFRS 16.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfillment cash flows, which represent the risk-adjusted present value of the entity’s rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfillment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the ‘premium allocation approach’, investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FSRSC decided to postpone the effective date until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current versus Noncurrent Classification

The Company presents assets and liabilities in the separate statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Company recognizes a financial asset or a financial liability in the separate statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

The Company classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Company for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Company changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Company manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Company considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Company considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Company considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the separate statements of comprehensive income when the financial asset is derecognized, modified or impaired.

The Company’s cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash and advances to a subsidiary are included under this category.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in OCI.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the separate statements of comprehensive income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the separate statements of changes in equity are transferred to and recognized in the separate statements of comprehensive income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the separate statements of comprehensive income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the separate statements of changes in equity are never reclassified to the separate statements of comprehensive income.
The Company's investments in equity and debt instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Company may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Company carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the separate statements of comprehensive income as incurred. Changes in fair value and realized gains or losses are recognized in the separate statements of comprehensive income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the separate statements of comprehensive income. Any dividend income from investment in equity instrument is recognized in the separate statements of comprehensive income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Company's derivative assets not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

The Company determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Company carries financial liabilities at FVPL using their fair values and reports fair value changes in the separate statements of comprehensive income. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the separate statements of comprehensive income.

The Company's derivative liabilities that are not designated as cash flow hedge are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the separate statements of comprehensive income. Gains and losses are recognized in the separate statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the separate statements of comprehensive income.

The Company's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in separate statements of comprehensive income.

Impairment of Financial Assets

The Company recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Company recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company recognizes lifetime ECLs for receivables that do not contain significant financing component. The Company uses provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Company on terms that the Company would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Company considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Company directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the separate statements of comprehensive income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in OCI, with the resulting impairment losses (or reversals) recognized in the separate statements of comprehensive income.

<u>Classification of Financial Instruments between Liability and Equity</u>
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the separate statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting
The Company uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in separate statements of comprehensive income.

Freestanding Derivatives. The Company designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and presented in the "Other reserves" account in the separate statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the separate statements of comprehensive income.

The Company designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in OCI. The cost of hedging is removed from OCI and recognized in separate statements of comprehensive income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects separate statements of comprehensive income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to separate statements of comprehensive income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect separate statements of comprehensive income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to separate statements of comprehensive income as a reclassification adjustment in the same period or periods as the hedged cash flows affect separate statements of comprehensive income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to separate statements of comprehensive income.

The Company has outstanding derivatives accounted for as cash flow hedge as at December 31, 2022 and 2021 (Note 34).

Embedded Derivatives. The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Company has embedded derivatives as at December 31, 2022 and 2021 (Note 34).

Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, the Company uses the first-in, first-out method in costing petroleum products and crude oil. Cost is determined using the moving-average method in costing lubes and greases, blending components, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the separate statements of comprehensive income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Investments in Shares of Stock of Subsidiaries and Associate

The Company's investments in shares of stock of subsidiaries and associate are accounted for under the cost method as provided for under PAS 27, *Consolidated and Separate Financial Statements*. A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The investments are carried in the Company's separate statements of financial position at cost less any impairment in value. The Company recognizes dividends from subsidiaries and associate in separate statements of comprehensive income when its right to receive the dividend is established.

The Company's subsidiaries include the following:

Name of Subsidiary	Percentage of Ownership 2022	2021	Country of Incorporation
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	**100.00**	100.00	Bermuda
Petron Freeport Corporation (PFC)	**100.00**	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	**100.00**	100.00	Singapore
Petron Marketing Corporation (PMC)	**100.00**	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	**85.55**	85.55	Philippines
Petron Global Limited (PGL)	**100.00**	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	**100.00**	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	**100.00**	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	**100.00**	100.00	Hong Kong
Mema Holdings Inc. (Mema) and Subsidiaries	**100.00**	-	Philippines

Ovincor is engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities include those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease. As of December 31, 2022 and 2021, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates & Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC).

PGL is a holding company incorporated in the British Virgin Islands.

POGM is a holding company incorporated under the laws of Mauritius. POGM owns an offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI).

As of December 31, 2022 and 2021, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

Petron Malaysia is involved in the refining and marketing of petroleum products in Malaysia.

PFL is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a holding company incorporated in Hong Kong in March 2008. As of December 31, 2022 and 2021, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

Mema is a holding company acquired by the Company on June 30, 2022. As of December 31, 2022, Mema owns 100% of Weldon Offshore Strategic Limited Incorporated which owns 100% of Petrofuel Logistics, Inc (PLI). PLI engages in the business of providing logistics and freight forwarding services for the hauling, carriage, transportation, forwarding, and/or storage of various goods and products.

The Company's 25.06% interest in Petrogen, accounted for as an investment in an associate as part of "Investments and advances - net" account in the separate statements of financial position, is accounted for under the cost method of accounting. The investment in associate is carried in the separate statements of financial position at cost less any impairment in value.

Interest in a Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI), included under "Investments and advances" account in the separate statements of financial position, is accounted for under the cost method of accounting. The interest in joint venture is carried in the separate statements of financial position at cost less any impairment in value. The Company has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation for property, plant and equipment, other than those assets used in production, which commences when the assets are available for its intended use, are computed using the straight-line method. Effective January 1, 2020, depreciation of refinery and plant equipment used in production is computed based on the unit of production method (UPM) which considers the expected capacity over the estimated useful lives of these assets. The estimated useful lives of the assets are as follows:

	Number of Years
Buildings and improvements and related facilities	7 - 29
Refinery and plant equipment	4 - 35
Service stations and other equipment	3 - 10
Computers, office and motor equipment	2 - 10
Land leasehold improvements	10-12 or the term of the lease, whichever is shorter

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation is consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in separate statements of comprehensive income in the period of retirement and disposal.

<u>Leases</u>
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use:

- the Company has the right to obtain substantially all the economic benefits from use of the identified asset; and

- the Company has the right to direct the use of the identified asset.

Company as a Lessee
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in the separate statements of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets, including pallets and computer equipment. The Company recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

The Company has applied COVID-19-Related Rent Concessions. The Company applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company assesses whether there is a lease modification.

Company as a Lessor
The Company determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Company applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Company applies PFRS 15 to allocate the consideration in the contract.

The Company identified the use of loaned equipment related to the sale of goods to be accounted under PFRS 16. The Company provides equipment such as pumps, tanks, signage and other ancillary equipment necessary for the operation of the business. These are loaned to the customers for the duration of the contract for the sole purpose of storing, handling and selling products and shall, at all times, remain the property of the Company. The Company allocates portion of the revenue to the use of loaned equipment and presented as part of “Sales” in the separate statements of comprehensive income based on adjusted market assessment approach. Lease revenue from the use of loaned equipment is contingent to, and recognized at the same time as, the sale of goods.

The Company recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and any accumulated impairment in value. Cost also includes any related asset retirement obligation (ARO), if any. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation, which commences when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements	7 - 25
Land leasehold improvements	10-12 or the term of the lease, whichever is shorter

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement and disposal of investment property are recognized in separate statements of comprehensive income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is an actual change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is an actual change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in separate statements of comprehensive income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in separate statements of comprehensive income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over 5 to 16 years.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in separate statements of comprehensive income when the asset is derecognized.

As of December 31, 2022 and 2021, the Company has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter “P” and two flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights endure during the lifetime of the creator and for another 50 years after creator’s death.

The amount of intangible assets is included as part of “Other noncurrent assets - net” in the separate statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of “Selling and administrative expenses” account in the separate statements of comprehensive income.

Asset Held for Sale

The Company classifies assets as held for sale, if their carrying amounts will be recovered primarily through sale rather than through continuing use. The assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the separate statements of comprehensive income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes will be made or that the decision on sale will be withdrawn. Management must be committed to the sale within one year from date of classification.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

Impairment of Nonfinancial Assets
The carrying amounts of property, plant and equipment, right-of-use assets, investment property, intangible assets with finite useful lives, investments in shares of stock of subsidiaries and associate and interest in a joint venture are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in separate statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in separate statements of comprehensive income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Cylinder Deposits
The Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to about 90% of the acquisition cost of the cylinders.

The Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of all its dealers, but in no case lower than P200,000 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the separate statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the separate statements of comprehensive income.

Fair Value Measurements
The Company measures financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the separate financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy.

Provisions

Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

The Company recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Company incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

Capital Stock
Common Shares. Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares. Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in separate statements of comprehensive income as accrued.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Capital Securities
Senior Perpetual Capital Securities (SPCS) and *Redeemable Perpetual Securities (RPS)* are classified as equity instruments in the separate financial statements since these securities are perpetual securities in respect of which there is no fixed redemption date and the redemption is at the option of the Company. Also, the Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 20).

Incremental costs directly attributable to the issuance of capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to capital securities.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Equity Reserve
The equity reserve includes the effect of transactions with equity adjustments.

Reserve for Retirement Plan
The reserve for retirement plan represents re-measurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest).

Hedging Reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

Treasury Stock
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Company’s own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue
The Company recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Company performs its obligations; (b) the Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company’s performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue is recognized at the point in time when control of petroleum and related products is transferred to the customer, which is normally upon delivery of the goods. The Company provides trade discounts and volume rebates to certain customers based on the level of their purchases which may be applied against the amount of their existing or future payables to the Company. Trade discounts and volume rebates do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each month. The general payment terms with customers are combination of prepayments and credit terms on an average of 45 days from invoice date.

The Company identified several performance obligations related to the sale of goods and accounted for them separately:

- *Provisions of Technical Support.* The Company provides technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs. Revenue is recognized over time upon rendering of services to the customer. The Company allocates portion of the revenue to the technical support based on expected cost plus a margin approach.

- *Consumer Loyalty Program.* The Company has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Company's products, rewards, discounts and other privileges from partner merchants. Revenue is allocated between the goods sold and the points issued that are expected to be redeemed. This allocation is based on the relative stand-alone selling price of the points. A deferred liability account is set up for these points. The liability will be reversed when the Company has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed. The deferred liability is based on the best estimate of future redemption profile. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

Other sources of revenue are as follows:

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Dividend Income. Dividend Income is recognized when the Company's right to receive the payment is established.

Rent Income. Rent income from operating leases (net of any incentives given to the lessees), other than from the use of loaned equipment, is recognized on a straight-line basis over the lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or Loss on Sale of Investments in Share of Stock. Gain or loss is recognized when the Company disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, any.

Other Income. Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Company and that can be measured reliably.

<u>Cost and Expense Recognition</u>
Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits
Short-term Employee Benefits. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits Costs and Other Employee Benefit Costs. The Company has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset;
- Remeasurements of defined benefit retirement liability or asset; and
- Settlement gain or loss, if any

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the separate statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the separate statements of comprehensive income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to separate statements of comprehensive income in subsequent periods.

Settlement gain or loss pertains to the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement. Any gain or loss on settlement is recognized as income or expense in the separate statements of comprehensive income.

The Company also provides other benefits to its employees as follows:

Corporate Performance Incentive Program. The Company has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Company's annual business goals and objectives. The Company recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Company recognizes the related expense when the KPIs are met, that is when the Company is contractually obliged to pay the benefits.

Savings Plan. The Company established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Company, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Company's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Company accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Company has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Company's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

Land/Home Ownership Plan. The Company established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

Foreign Currency

Foreign Currency Translations. Transactions in foreign currencies are initially recorded in the Company's functional currency at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in separate statements of comprehensive income, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in separate statements of comprehensive income. The Company periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the separate statements of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables" accounts in the separate statements of financial position.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

Basic and Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Company, net of dividends on preferred shares and distributions to holders of capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

Operating Segments
The Company's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 36 to the separate financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Company used for segment reporting under PFRS 8 are the same as those used in its separate financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments.

Contingencies
Contingent liabilities are not recognized in the separate financial statements. They are disclosed in the notes to the separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the separate financial statements but are disclosed in the notes to the separate financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the Company's separate financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the separate financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the separate financial statements:

Determining Functional Currency. The Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

Identification of Distinct Performance Obligation. The Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Company has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and consumer loyalty program and allocates the transaction price into these several performance obligations.

Determining whether a Contract Contains a Lease. The Company uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Company makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

Operating Lease Commitments - Company as Lessor. The Company has entered into various lease agreements as lessor. The Company had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rent income recognized as "Other operating income" account in the separate statements of comprehensive income amounted to P549,949 and P453,855 in 2022 and 2021, respectively. Revenues from the customers' use of loaned equipment amounted to P1,172,998 in 2022 and P1,152,796 in 2021 (Note 36).

Estimating the Incremental Borrowing Rate. The Company cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Company would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgement estimates.

Determining the Lease Term of Contracts with Renewal Options - Company as Lessee. The Company determines the lease term as the noncancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has several lease contracts that include extension options. At lease commencement date, the Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

Determining Whether the Company is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Company is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Company obtains control of the specified goods and services before it is transferred to the customer.

For the sale of petroleum products to dealers, the Company transfers the control of the goods upon delivery, hence, the Company has determined that it is acting as principal in the sales transactions with dealers. The dealers are likewise acting as principal in the sales transactions to end consumers on the basis of the following: (a) the dealers have the primary responsibility to provide specified goods to the end consumers; (b) the dealers bear inventory risk before the goods are transferred to end consumers; and (c) the dealers have discretion to establish prices for specified goods.

For the Company's fleet card transactions, the Company has likewise determined that it is acting as principal in the sales transactions with the customers since the Company has the primary responsibility for providing goods purchased through fleet cards and the Company has discretion to establish prices for specified goods in a fleet card transaction.

Classification of Financial Instruments. The Company exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the separate statements of financial position.

The Company uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 34.

Evaluating Control or Significant Influence over its Investees. Determining whether the Company has control or significant influence in an investee requires significant judgment. The Company has assessed it has lost its control over Petrogen upon the decrease in ownership interest from 100% to 25.06% in 2021. The Company has no longer the power, in practice, to govern the financial and operating policies of Petrogen, to appoint or remove the majority of the members of the BOD of Petrogen and to cast majority votes at meetings of the BOD of Petrogen. However, the Company has determined that it exercises significant influence over Petrogen by virtue of its representation in the BOD of Petrogen (Note 9).

The Company likewise determined that it has control over Mema upon acquisition of its 100% of its authorized capital on June 30, 2022. The Company has the power, in practice, to govern the financial and operating policies of Mema, to appoint or remove the majority of the members of the BOD of Mema and to cast majority votes at meetings of the BOD of Mema. The Company controls Mema since it is exposed, and has rights, to variable returns from its involvement with Mema and has the ability to affect those returns through its power over Mema.

Distinction Between Property, Plant and Equipment and Investment Property. The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by the Company. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

Determining Impairment Indicators of Other Nonfinancial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, investments in shares of stock of an associate and interest in joint ventures, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

Taxes. Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Contingencies. The Company is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Company. The Company's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Company currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

<u>Estimates and Assumptions</u>
The key estimates and assumptions used in the separate financial statements are based upon the Company's evaluation of relevant facts and circumstances as at the date of the separate financial statements. Actual results could differ from such estimates.

Assessment for ECL on Trade and Other Receivables. The Company, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Company also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. The Company then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Company adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Company regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Company has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of receivables are normally collected within one year. Moreover, based on Management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Company from its trade receivables.

Impairment losses on trade and other receivables amounted to P14,906 and P25,676 in 2022 and 2021, respectively (Notes 7 and 22). Receivables written-off amounted to P89,760 and P4,313 in 2022 and 2021, respectively (Note 7). Reversal of impairment loss amounted to P18,598 and 17,514 in 2022 and 2021, respectively (Note 7).

The carrying amount of trade and other receivables amounted to P53,092,113 and P30,311,296 as of December 31, 2022 and 2021, respectively (Note 7).

Assessment for ECL on Other Financial Assets at Amortized Cost. The Company determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Company also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Company has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Company only with reputable banks, the Government of the Philippines and companies with good credit standing and relatively low risk of defaults.

Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2022 and 2021. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2022**	2021
Cash in banks and cash equivalents	*5*	**P25,629,924**	P26,070,566
Advances to a subsidiary	*9*	**1,078,037**	1,159,707
		P26,707,961	P27,230,273

Net Realizable Values of Inventories. In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P67,277,154 and P54,120,697 as of the end of 2022 and 2021, respectively (Note 8), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

The Company recognized loss on inventory write-down amounting to P107,564 and 2,633 in 2022 and 2021, respectively (Note 8).

Allowance for Inventory Obsolescence. The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established at a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2022 and 2021, the Company increased/(reduced) the allowance for inventory obsolescence by P72,981 and (P42,912) respectively (Note 8).

Fair Value Measurements. A number of the Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Company uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 34.

Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Asset, Investment Property and Intangible Assets with Finite Useful Lives. The Company estimates the useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

Except for refinery and plant equipment used in production, there is no change in estimated useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on management's review at the reporting date.

Starting January 1, 2020, the Company adopted the UPM of accounting for depreciation of refinery and plant equipment used in production. UPM closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, net of accumulated depreciation amounted to P144,147,212 and P146,332,844 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of property, plant and equipment amounted to P92,064,035 and P85,339,566 as of December 31, 2022 and 2021, respectively (Note 10).

Right-of-use of assets, net of accumulated depreciation amounted to P4,976,644 and P5,229,412 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of right-of-use asset amounted to P2,017,678 and P1,509,405 as of December 31, 2022 and 2021, respectively (Note 11).

Investment property, net of accumulated depreciation amounted to P10,511,986 and P11,716,304 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of investment property amounted to P9,184,158 and P7,942,965 as of December 31, 2022 and 2021, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P60,970 and P83,317 as of December 31, 2022 and 2021, respectively (Note 13). Accumulated amortization of intangible assets with finite useful lives amounted to P187,938 and P165,590 as of December 31, 2022 and 2021, respectively.

Fair Value of Investment Property. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering: (a) the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation; or (b) the depreciated replacement cost of the asset, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Estimated fair values of investment property amounted to P15,652,593 and P16,005,584 as of December 31, 2022 and 2021, respectively (Note 12).

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P13,350,869 and P14,007,643 as of December 31, 2022 and 2021, respectively (Note 26).

Present Value of Defined Benefit Retirement Obligation. The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 29 to the separate financial statements and include discount rate and salary increase rate.

The Company determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Company are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefits liability.

Retirement benefits costs recognized in separate statements of comprehensive income amounted to P395,987 and P306,705 in 2022 and 2021, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P647,212 and P673,337 in 2022 and 2021, respectively. The retirement benefits liability amounted to P2,272,047 and P2,428,848 as of December 31, 2022 and 2021, respectively (Note 29).

Asset Retirement Obligation. The Company has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Company determined the amount of ARO, based on the dismantling costs as estimated by the operating unit responsible for the asset, discounted at the Company's current credit-adjusted risk-free rate ranging from 6.46% to 8.47% depending on the life of the capitalized costs. The Company also conducts periodic review of the estimates of dismantling costs to consider actual expenses incurred during the actual retirement of assets and uses this as input in determining future liability. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,274,115 and P2,670,930 as of December 31, 2022 and December 31, 2021 (Note 18).

5. Cash and Cash Equivalents

This account consists of:

	Note	**2022**	2021
Cash on hand		**P1,359,336**	P1,083,059
Cash in banks		**2,258,267**	5,161,634
Short-term placements		**23,371,657**	20,908,932
	33, 34	**P26,989,260**	P27,153,625

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Company and earn annual interest at the respective short-term placement rates ranging from 0.05% to 6.32% in 2022 and 0.01% to 2.75% in 2021 (Note 25).

6. Financial Assets at Fair Value

This account consists of:

	Note	**2022**	2021
Proprietary membership shares		**P352,123**	P297,863
Derivative assets not designated as cash flow hedge		**931,079**	543,909
Derivative assets designated as cash flow hedge		**180,638**	52,990
	33, 34	**1,463,840**	894,762
Less: Noncurrent portion	*13*	**37,472**	33,251
		P1,426,368	P861,511

The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 34).

The noncurrent portion pertains to derivative assets designated as cash flow hedge due after 12 months, which is included in "Other noncurrent assets - net" account in the separate statements of financial position (Note 13).

Changes in fair value of assets at FVPL recognized in separate statements of comprehensive income in 2022 and 2021 amounted to P54,260 and P22,560, respectively (Note 25) while changes in fair value of derivative assets designated as cash flow hedge were recognized in OCI.

7. Trade and Other Receivables

This account consists of:

	Note	**2022**	2021
Trade		**P37,352,343**	P22,502,186
Related parties - trade	*27*	**7,488,119**	3,922,588
Allowance for impairment loss on trade receivables		**(706,870)**	(798,941)
		44,133,592	25,625,833
Related parties - non-trade	*27*	**4,141,658**	2,648,787
Government		**2,749,424**	1,579,177
Others		**2,210,711**	602,152
Allowance for impairment loss on non-trade receivables		**(143,272)**	(144,653)
		8,958,521	4,685,463
	33, 34	**P53,092,113**	P30,311,296

Trade receivables are noninterest-bearing and are generally on a 45-day average term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of advances made by the Company to Petron Corporation Employee Retirement Plan (PCERP), noninterest and interest-bearing receivables from its subsidiaries and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and counterparties for matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2022 and 2021 is shown below:

	Note	**2022**	2021
Balance at beginning of year		**P954,788**	P950,939
Additions	*4, 22*	**14,906**	25,676
Write off	*4*	**(89,760)**	(4,313)
Reversal of impairment	*4*	**(18,598)**	(17,514)
Balance at end of year		**861,336**	954,788
Less: Noncurrent portion for long-term receivables		**11,194**	11,194
		P850,142	P943,594

The Company computes impairment loss on trade and other receivables based on past collection experiences, current circumstances, and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience over the past three years. Economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of the impact of future economic conditions, if any, over the expected lives of the trade and other receivables are also considered.

Trade accounts receivable written-off amounting to P89,760 and P4,313 in 2022 and 2021, respectively, pertained to long outstanding, uncollectible accounts which were previously provided with allowance.

The following table provides information about the exposure to credit risk and ECL of trade and other receivables as of December 31, 2022 and 2021:

	Weighted Average Loss Rate	**Gross Carrying Amount**	**ECL**
December 31, 2022			
Retail	**1.68%**	**P4,777,783**	**P80,243**
Lubes	**0.09%**	**841,208**	**769**
Gasul	**4.16%**	**1,272,331**	**52,877**
Industrial	**0.95%**	**29,274,719**	**277,762**
Others	**2.47%**	**17,776,214**	**438,491**
	1.58%	**P53,942,255**	**P850,142**

	Weighted Average Loss Rate	Gross Carrying Amount	ECL
December 31, 2021			
Retail	2.68%	P3,868,966	P103,640
Lubes	1.26%	610,160	7,664
Gasul	4.49%	1,173,716	52,680
Industrial	2.16%	16,356,431	352,555
Others	4.62%	9,245,617	427,055
	3.02%	P31,254,890	P943,594

8. Inventories

This account consists of:

	2022	2021
Crude oil and others	**P34,360,398**	P28,626,904
Petroleum	**23,610,951**	16,810,253
Materials and supplies	**4,858,620**	5,198,273
Lubes, greases and aftermarket specialties	**4,447,185**	3,485,267
	P67,277,154	P54,120,697

The cost of these inventories amounted to P68,026,707 and P54,692,338 as of December 31, 2022 and 2021, respectively.

If the Company had used the moving-average method (instead of the first-in, first-out method, which is the Company's policy), the cost of petroleum, crude oil and other products would have increased by P2,363,496 and decreased by P727,694 as of December 31, 2022 and 2021, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P391,894,043 and P205,617,316 in 2022 and 2021, respectively (Note 21).

Research and development costs on these products constituted the expenses incurred for internal projects in 2022 and 2021 (Note 22).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2022 and 2021 follow:

	Note	2022	2021
Balance at beginning of year		**P571,641**	P611,920
Addition (deduction):			
Obsolescence of non-fuel products, materials and supplies	*4*	**72,981**	(42,912)
Loss on inventory write-down	*4*	**107,564**	2,633
Reversals		**(2,633)**	-
Balance at end of year		**P749,553**	P571,641

The losses and reversals are included as part of "Cost of goods sold" account in the separate statements of comprehensive income. Reversal of write-down corresponds to inventories sold during the year (Note 21).

9. Investments and Advances

This account consists of:

	Note	2022	2021
Advances to a subsidiary	*27, 33, 34*	**P1,078,037**	P1,159,707
Investments in shares of stock of subsidiaries - net	*(i)*	**34,318,258**	33,054,623
Investment in a joint venture	*(ii)*	**-**	4,000
Investment in associate	*(iii)*	**1,003,365**	1,003,365
		P36,399,660	P35,221,695

i. Investments in shares of stock of subsidiaries pertain to investments in the following entities:

	Note	2022	2021
POGM and Subsidiaries		**P26,764,842**	P26,764,842
PAHL and Subsidiaries	*(c)*	**4,988,402**	4,988,402
PGL		**3,700,610**	3,700,610
NVRC and Subsidiaries		**3,127,500**	3,127,500
Mema and Subsidiaries	*(d)*	**1,303,124**	-
PMC		**289,455**	289,455
PFC		**50,000**	50,000
Ovincor	*(a)*	**351,488**	351,348
PSTPL		**33,181**	33,181
PFL	*(b)*	**2,062**	2,062
Total cost		**40,610,664**	39,307,400
Less: Allowance for impairment loss		**6,292,406**	6,252,777
Investments in shares of stock - net		**P34,318,258**	P33,054,623

A reconciliation of the allowance for impairment losses at the beginning and end of 2022 and 2021 is shown below:

	Note	2022	2021
Balance at beginning of year		**P6,252,777**	P6,172,744
Addition	*(b), (c), 25*	**39,629**	80,033
Balance at end of year		**P6,292,406**	P6,252,777

The following are the major developments relating to the Company's investment in shares of stock of subsidiaries:

a. *Ovincor*
On June 22, 2021 and December 9, 2021, the Executive Committee of the BOD of the Company approved the proposal of Management for an additional investment in the Ovincor of US$1,000 and US$5,200, respectively. This is to expand Ovincor's capability to retain a bigger share of insurance cover for the Company. The additional investments were paid on August 19, 2021 and December 15, 2021, respectively.

b. *PFL*
The Company recognized impairment loss on the investment in PFL amounting to P54 in 2022 and P53 in 2021 (Note 25).

c. *PAHL and Subsidiaries*
The Company recognized impairment loss on the investment in PAHL and Subsidiaries amounting to P39,575 in 2022 and P79,980 in 2021 (Note 25).

d. *Mema and Subsidiaries*
On February 16, 2022, the Company paid P104,124 for the acquisition of 10,000,000 common shares with par value of P1.00 per share representing 100% of the authorized capital stock of Mema. The Mema group includes the subsidiary engaged in hauling and logistics services (Note 3). On June 30, 2022, control over the investee has been transferred to the Company after the resolution of the substantive pending issues agreed by both the seller and the Company. On October 27, 2022, the Company and Mema executed a Subscription Agreement to subscribe to an additional 1,375,000,000 common shares of Mema for a subscription price of P1,375 or P1.00 per common share, of which P899,000 was paid in 2022. On December 29, 2022, P300,000 adjustment in purchase price was agreed by the Company and the seller. As of December 31, 2022, the adjustment in purchase price is still outstanding (Note 16) and was subsequently settled in 2023.

ii. The Company has a 33.33% joint venture interest in PDSI, which is involved in receiving, storing and handling the out-loading of petroleum products of the three major oil companies to serve the fuel requirement of their respective customers. PDSI was incorporated on September 29, 2004 and has a principal place of business in Manila, Philippines. On June 22, 2022, the Bureau of Internal Revenue has approved the cancellation of PDSI's registration.

The Company recognized impairment of P4,000 in 2022. As of December 31, 2022 and 2021, the carrying amount of the investment is nil and P4,000, respectively.

Condensed financial information of PDSI as of and for the years ended December 31, 2022 and 2021 follows:

	2022	2021
Current assets	**P2,646**	P2,948
Current liabilities	**-**	(831)
Net assets	**P2,646**	P2,117

iii. Petrogen was incorporated and registered with the Philippine SEC on August 23, 1996 primarily to engage in the business of non-life insurance and re-insurance and has principal place of business in Mandaluyong City.

On September 10, 2019 and December 16, 2019, the Company subscribed to additional 31,250 and 93,750 common shares, respectively, of Petrogen at P1,000.00 per share for a total consideration of P125,000, pursuant to the increase in the capital stock of Petrogen which was approved by the SEC on November 4, 2019. As at December 31, 2019, Petrogen has a total of 475,001 common shares issued and outstanding.

On October 21, 2020, the BOD of Petrogen approved the declaration of stock dividends in the total amount of P25 equal to 25,000 shares with par value of P1,000 per share and was subsequently approved by the Insurance Commission on January 4, 2021.

On December 3, 2020, the BOD of Petrogen approved the increase in its authorized capital stock from P750,000, divided into 750,000 shares, to P2,250,000, divided into 2,250,000 shares, with a par value of P1,000 per share. On the same date, Petrogen's BOD also approved the subscription of SMC to 1,494,973 shares at a book value of about P2,007 per share for an aggregate subscription price of P3,000,000. Petrogen received the SEC approval on February 8, 2021 on Petrogen's increase in authorized capital stock dated February 4, 2021 and issued 1,494,973 common shares with an aggregate par value of P1,494,973 to SMC for a total subscription price of P3,000,000. On March 1, 2021, the corresponding stock certificate was issued to SMC.

As a result, the Company's ownership interest in Petrogen decreased from 100% to 25.06% and Petrogen was deconsolidated from the Company effective February 4, 2021. The carrying amount of the Company's investment in Petrogen at deconsolidation date amounted to P270,000. The Company recognized P733,365 gain on deconsolidation in 2021 (Note 25).

The following are the dividends received by the Company in 2022 and 2021.

<u>2022</u>

Subsidiaries	**Date of Declaration**	**Date of Receipt**	**Amount**
POGM	**March 15, 2022**	**March 22, 2022**	**P376,202**
POGM	**July 15, 2022**	**July 18, 2022**	**505,083**
POGM	**December 9, 2022**	**December 16, 2022**	**267,420**
PSTPL	**May 26, 2022**	**June 21, 2022**	**408,556**
PSTPL	**November 29, 2022**	**December 16, 2022**	**718,795**
Total			**P2,276,056**

2021

Subsidiaries	Date of Declaration	Date of Receipt	Amount
POGM	July 22, 2021	July 22, 2021	P122,638
POGM	October 28, 2021	October 29, 2021	249,171
PFC	October 7, 2021	November 16, 2021	90,000
PSTPL	June 4, 2021	June 23, 2021	301,140
PSTPL	November 15, 2021	December 22, 2021	549,241
Total			P1,312,190

The Company, through its BOD, has appropriated to reinvest the dividends received from POGM and PSTPL in its business operations to fund its working capital requirements. As at December 31, 2022 and 2021, dividends received from POGM and PSTPL in 2022 and 2021 have been fully disbursed in accordance with the purpose set forth.

10. Property, Plant and Equipment

The movements and balances of property, plant, and equipment as of and for the years ended December 31 follow:

	Note	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Cost								
January 1, 2021		P17,940,664	P181,558,874	P10,193,914	P3,821,565	P1,759,895	P9,070,453	P224,345,365
Additions		101,092	254,993	59,555	82,059	92,389	7,073,718	7,663,806
Disposals/retirements		(21,105)	-	(3,011)	(64,350)	(1,053)	(13,258)	(102,777)
Reclassifications to/from investment property	*12*	434,510	703,116	34,525	200	3,420	(1,409,755)	(233,984)
December 31, 2021		18,455,161	182,516,983	10,284,983	3,839,474	1,854,651	14,721,158	231,672,410
Additions		107,625	1,650,663	133,438	120,371	90	2,782,939	4,795,126
Disposals/retirements		(15,487)	-	(497,161)	(47,589)	-	-	(560,237)
Reclassifications to/from investment property	*12*	1,874,911	2,898,550	151,511	70,814	79,472	(4,771,310)	303,948
December 31, 2022		**20,422,210**	**187,066,196**	**10,072,771**	**3,983,070**	**1,934,213**	**12,732,787**	**236,211,247**
Accumulated Depreciation								
January 1, 2021		10,574,794	56,002,115	8,400,418	3,402,110	1,123,821	-	79,503,258
Depreciation		690,719	4,277,183	679,543	206,788	87,219	-	5,941,452
Disposals/retirements		(8,891)	-	(3,011)	(55,595)	(1,053)	-	(68,550)
Reclassifications to/from investment property	*12*	(37,978)	-	1,203	-	181	-	(36,594)
December 31, 2021		11,218,644	60,279,298	9,078,153	3,553,303	1,210,168	-	85,339,566
Depreciation		770,685	5,779,957	604,043	160,877	91,500	-	7,407,062
Disposals/retirements		(14,896)	-	(493,504)	(43,809)	-	-	(552,209)
Reclassifications to/from investment property	*12*	(136,938)	-	2,791	-	3,763	-	(130,384)
December 31, 2022		**11,837,495**	**66,059,255**	**9,191,483**	**3,670,371**	**1,305,431**	**-**	**92,064,035**
Carrying Amount								
December 31, 2021		P7,236,517	P122,237,685	P1,206,830	P286,171	P644,483	P14,721,158	P146,332,844
December 31, 2022		**P8,584,715**	**P121,006,941**	**P881,288**	**P312,699**	**P628,782**	**P12,732,787**	**P144,147,212**

In 2022 and 2021, certain property, plant and equipment were reclassified to/from investment property due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 12).

No impairment loss was required to be recognized in 2022 and 2021 based on management's assessment of impairment indicators.

Certain fully depreciated property, plant and equipment with aggregate costs of P14,442,848 and P12,491,885 as of December 31, 2022 and 2021, respectively, are still being used in the Company's operations.

The Company capitalized interest amounting to P536,152 and P234,308 in 2022 and 2021, respectively (Notes 14, 17, 25 and 28). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.27% to 8.22% in 2022 and from 1.34% to 8.21% in 2021.

Capital Commitments

As of December 31, 2022 and 2021, the Company has outstanding commitments to acquire property, plant and equipment amounting to P3,149,537 and P3,264,007, respectively.

11. Right-of-Use Assets

The movements and balances of right-of-use assets as of and for the years ended December 31 follow:

	Land	Buildings and Improvements and Related Facilities	Service Stations and Other Equipment	Total
Cost				
January 1, 2021	P6,031,104	P1,040,047	P24,331	P7,095,482
Additions	21,370	421,001	-	442,371
Remeasurements	(393,094)	(405,942)	-	(799,036)
December 31, 2021	5,659,380	1,055,106	24,331	6,738,817
Additions	60,154	-	-	60,154
Remeasurements	195,351	-	-	195,351
December 31, 2022	**5,914,885**	**1,055,106**	**24,331**	**6,994,322**
Accumulated Depreciation				
January 1, 2021	969,536	420,175	5,584	1,395,295
Depreciation	385,967	188,646	2,792	577,405
Remeasurements	(57,352)	(405,943)	-	(463,295)
December 31, 2021	1,298,151	202,878	8,376	1,509,405
Depreciation	395,004	206,524	2,792	604,320
Remeasurements	(96,047)	-	-	(96,047)
December 31, 2022	**1,597,108**	**409,402**	**11,168**	**2,017,678**
Carrying Amount				
December 31, 2021	P4,361,229	P852,228	P15,955	P5,229,412
December 31, 2022	**P4,317,777**	**P645,704**	**P13,163**	**P4,976,644**

The Company recognized right-of-use assets for leases of office space, buildings, machinery and equipment, service stations and parcels of land. The leases typically run for a period of two to 30 years. Some leases contain an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Company. The Company recognized interest expense related to these leases amounting to P1,117,742 and P1,178,206 in 2022 and 2021, respectively (Note 28).

The Company also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases and leases of low-value assets amounted to P458,498 and P10,226, respectively, in 2022, and P264,338 and P8,026, respectively, in 2021 (Note 28).

The Company had total payment for leases of P2,677,899 and P2,511,091 in 2022 and 2021, respectively (Note 28).

The remeasurements pertain mainly to the change in the estimated dismantling costs of ARO during the year (Note 4).

12. Investment Property

The movements and balances as of and for the years ended December 31 follow:

	Note	Land and Leasehold Improvements	Buildings and Improvements	Construction In-progress	Right-of-use	Total
Cost						
January 1, 2021		P869,312	P8,050,212	P149,125	P10,096,161	P19,164,810
Additions		-	87,951	187,666	116,584	392,201
Reclassifications/remeasurements	*10*	(519)	325,454	(81,855)	5,661	248,741
Disposals		-	-	-	(146,483)	(146,483)
December 31, 2021		868,793	8,463,617	254,936	10,071,923	19,659,269
Additions		-	55,571	47,690	295,175	398,436
Reclassifications/remeasurements	*10*	(34,248)	(149,235)	(158,427)	204,408	(137,502)
Disposals		-	-	-	(224,059)	(224,059)
December 31, 2022		**834,545**	**8,369,953**	**144,199**	**10,347,447**	**19,696,144**
Accumulated Depreciation						
January 1, 2021		775,154	3,951,209	-	2,007,185	6,733,548
Depreciation		29,590	336,038	-	971,933	1,337,561
Reclassifications/remeasurements	*10*	(181)	36,776	-	(24,683)	11,912
Disposals		-	-	-	(140,056)	(140,056)
December 31, 2021		804,563	4,324,023	-	2,814,379	7,942,965
Depreciation		25,010	328,700	-	1,036,811	1,390,521
Reclassifications/remeasurements	*10*	(3,763)	134,147	-	(55,653)	74,731
Disposals		-	-	-	(224,059)	(224,059)
December 31, 2022		**825,810**	**4,786,870**	**-**	**3,571,478**	**9,184,158**
Carrying Amount						
December 31, 2021		P64,230	P4,139,594	P254,936	P7,257,544	P11,716,304
December 31, 2022		**P8,735**	**P3,583,083**	**P144,199**	**P6,775,969**	**P10,511,986**

In 2022 and 2021, certain investment property were reclassified from/to property, plant and equipment due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 10).

No impairment loss was required to be recognized in 2022 and 2021 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2022 and 2021.

The fair value of investment property amounting to P15,652,593 and P16,005,584 as of December 31, 2022 and 2021, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

For properties with available appraisal reports, the fair value of investment property amounting to P52,813 as of December 31, 2022 and 2021 was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Company's investment property on a regular basis. The fair value of investment property amounting to P6,109,794 and P6,017,169 as of December 31, 2022 and 2021, respectively, was determined using the depreciated replacement cost method. The net present value of lease liability recognized in investment property represents the remaining fair value amounting to P9,489,986 and P9,935,602 as of December 31, 2022 and 2021.

<u>Valuation Technique and Significant Unobservable Inputs</u>
The valuation of investment property applied the following approaches below:

Sales Comparison Approach. The market value of the land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established through such process of comparing available data. The property being valued is compared with sales transactions involving similar properties in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Depreciated Replacement Cost Method. The fair value of land and leasehold improvements, buildings and improvements and facilities were arrived at using the depreciated replacement cost method, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the remaining lease payments on the property is first determined followed by the application of the proper capitalization rate to arrive at its net present value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment.

13. Other Assets

This account consists of:

	Note	**2022**	2021
Current:			
Prepaid taxes		**P33,440,624**	P26,637,453
Input VAT		**1,845,338**	3,010,002
Prepaid expenses	*27*	**1,058,543**	1,003,960
Special-purpose fund		**168,585**	158,203
		P36,513,090	P30,809,618
Noncurrent:			
Catalyst - net		**P420,820**	P487,389
Input VAT		**65,272**	96,427
Derivative assets designated as cash flow hedge	*6, 33, 34*	**37,472**	33,251
Others - net		**119,392**	132,513
		P642,956	P749,580

The "Others - net" under "Noncurrent" account includes licenses, other intangibles and other noncurrent assets amounting to P119,392 and P132,513 as of December 31, 2022 and 2021, respectively, net of amortization amounting to P168,174 and P133,530 in 2022 and 2021, respectively.

Amortization of other intangibles included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the separate statements of comprehensive income amounted to P15,824 both in 2022 and 2021 (Notes 22 and 24).

Amortization of catalysts, licenses and other noncurrent assets included as part of "Depreciation and amortization" under "Cost of goods sold" account in the separate statements of comprehensive income amounted to P221,362 and P162,072 in 2022 and 2021, respectively (Notes 21 and 24).

14. Short-term Loans

This account pertains to unsecured Philippine peso and US dollar-denominated loans obtained from local and foreign banks with maturities ranging from 7 to 140 days and annual interest ranging from 2.00% to 6.88% in 2022 and 1.28% to 2.95% in 2021 (Note 25). These loans are intended to fund the importation of crude oil and petroleum products (Note 8) and working capital requirements.

Interest expense on short-term loans amounted to P3,881,512 in 2022 and P1,881,323 in 2021 (Note 25). Interest expense was capitalized as part of property, plant and equipment amounting to P169,275 and P46,915 in 2022 and 2021, respectively (Note 10).

15. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are noninterest-bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Company are disclosed in Note 30.

Liabilities for crude oil and petroleum products are payable to the following:

	Note	**2022**	2021
Related parties	*27*	**P21,436,156**	P19,405,623
Third parties		**2,002,567**	2,160,842
	33, 34	**P23,438,723**	P21,566,465

16. Trade and Other Payables

This account consists of:

	Note	**2022**	2021
Trade		**P3,627,530**	P2,599,664
Specific taxes and other taxes payable		**6,692,232**	3,185,781
Due to related parties	*27*	**5,626,531**	1,582,233
Accrued interest		**1,209,043**	653,477
Deferred liability on consumer loyalty program		**505,774**	491,057
Dividends payable	*32*	**470,641**	828,975
Accrued payroll		**106,721**	106,487
Accrued rent		**52,662**	52,724
Retention payable		**24,053**	81,070
Others		**147,659**	189,965
	33, 34	**P18,462,846**	P9,771,433

Trade payables are liabilities to haulers, contractors and suppliers that are non-interest bearing and are generally settled on a 30-day term.

Others include provisions (Note 38) and accruals of selling and administrative expenses which are normally settled within a year.

The Company recognized revenue that was included in deferred liability on consumer loyalty program amounting to P391,308 and P458,664 in 2022 and 2021, respectively (Note 36).

17. Long-term Debt

This account consists of:

	Note	2022	2021
Unsecured Peso-Denominated (net of debt issue costs)			
Term loan of 5.4583% due until 2022	(a)	**P -**	P999,502
Fixed rate retail bonds of 4.5219% due in 2023	(b)	**6,990,299**	6,979,026
Term loan of 5.5276% due until 2024	(d)	**3,744,091**	5,878,156
Term loan of 5.7584% due until 2022	(e)	**-**	2,497,277
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	(f)	**19,906,090**	19,867,422
Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027	(k)	**17,823,453**	17,779,353
Term loan of 4.5900% due until 2025	(i)	**3,115,562**	4,356,592
Term loan of 7.1663% due until 2027	(l)	**4,967,000**	-
Term loan of 7.4206% due until 2027	(m)	**4,968,467**	-
Term Loan of 7.5496% due until 2027	(n)	**4,968,428**	-
Term Loan of 6.4920% due in 2025	(o)	**2,358,884**	-
Term Loan of 6.8672% due in 2025	(p)	**620,679**	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - US$1,000 million due until 2022	(c)	**-**	7,218,786
Floating rate dollar loan - US$800 million due until 2024	(g)	**6,276,197**	22,991,686
Floating rate yen loan - JP¥15 billion due until 2025	(h)	**4,527,466**	6,555,577
Floating rate dollar loan - US$150 million due in 2023	(j)	**-**	7,522,375
Floating rate dollar loan - US$550 million due until 2027	(q)	**26,794,410**	-
	32, 33, 34	**107,061,026**	102,645,752
Less: current portion		**13,399,136**	21,580,270
		P93,661,890	P81,065,482

a. On October 13, 2015, the Company drew P5,000,000 from a P5,000,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements. In 2022 and 2021, the Company settled matured interim principal payments aggregating to P1,000 each year. The Company has fully paid the facility as of December 31, 2022.

b. On October 27, 2016, the Company issued P20,000,000 retail bonds (the “Bonds”) divided into Series A (P13,000,000) and Series B (P7,000,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US$475 million and US$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016. The Company redeemed its P13,000,000 Series A retail bonds on October 27, 2021.

c. On June 16, 2017, the Company signed and executed a US$1,000 million term facility and has initially drawn US$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US$115 million and US$470 million loans under the US$475 million (executed on September 29, 2014) and US$550 million (executed on July 20, 2015) term loan facilities, respectively. On October 10, 2017, the Company drew the remaining US$400 million from the facility. The proceeds of which were used to settle the P20,000,000 Peso-denominated Notes issued on November 10, 2010 which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread. The Company made partial principal payments of US$86 million and US$57 million in 2021 against the US$600 million and US$400 million drawdowns, respectively and has fully paid the remaining balance in 2022.

d. On July 25, 2017, the Company drew P15,000,000 from a P15,000,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant in 2016. As of December 31, 2022, the P11,250,000 portion of the facility has already been paid.

e. On December 29, 2017, the Company drew P10,000,000 from a P10,000,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements. The Company has fully settled the facility in 2022.

f. On October 19, 2018, the Company offered P20,000,000 fixed retail bonds (the “Offer Bonds”) divided into Series C (P13,200,000) bearing interest at 7.8183% per annum and Series D (P6,800,000) bearing interest at 8.0551% per annum. The Series C Offer Bonds will mature on April 19, 2024 (5.5-year term) while the Series D Offer Bonds is due on October 19, 2025 (7-year term). Interests on these Offer Bonds are payable quarterly, commencing on January 19, 2019, and thereafter, on April 19, July 19, October 19 and January 19 of each year. The net proceeds from the issuance of the Offer Bonds were used primarily to settle short-term loans availed by the Company to fund crude oil purchases and redeem a portion of the Company’s remaining Undated Subordinated Capital Securities (USCS) (Note 20), and the balance for general corporate purposes. The Offer Bonds were listed with the Philippine Dealing & Exchange Corp. on October 19, 2018.

g. On May 10, 2019, the Company signed and executed a US$800 million term loan facility. Initial drawdown of US$300 million was made on May 15, 2019, the proceeds of which were used to refinance the Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the Company drew an additional US$236 million from the facility to partially prepay its US$1,000 million term loan facility. Finally, the remaining balance of US$264 million was drawn on July 10, 2019 to refinance various peso-denominated short-term loans and for general corporate purposes. The facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning May 15, 2021. The facility is subject to a floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months. In 2022 and 2021, US$343 million, US$228 million portion of the facility has been paid, respectively.

h. On April 22, 2020, the Company drew JP¥15 billion from a JP¥15 billion term loan facility signed and executed on March 27, 2020. The proceeds were used to partially prepay its US$1 billion term loan facility. The JP¥ facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning March 27, 2022. It is subject to a floating interest rate based on JP¥ LIBOR plus a spread, repriced every 1, 3 or 6 months. Due to the global discontinuation of JPY LIBOR by December 31, 2021, an amendment was made to the JPY Facility adopting the Tokyo Overnight Average Rate (TONA) as the new benchmark rate. Beginning December 29, 2021, the floating interest rate on the JPY15 billion facility is based on TONA plus a spread, repriced every 1, 3 or 6 months. In 2022, the Company has paid the principal amortizations amounting to JP¥4.29 billion.

i. On April 27, 2020, the Company drew P5,000,000 from a P5,000,000 term loan facility which was signed and executed on April 23, 2020. The facility is subject to a fixed interest rate of 4.59% per annum and amortized over 5 years with a 12-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning July 27, 2021. The proceeds were used for general corporate purposes. In 2022 and 2021, P1,250,000 and P625,000 amortizations of principal have been paid, respectively.

j. On August 26, 2020, the Company availed a US$150 million three-year long-term debt, subject to floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months, that will mature on August 7, 2023. The proceeds were used to prepay part of the existing US$1.0 billion term loan facility and US$800 million loan. In 2022, the Company has prepaid the principal in full.

k. On October 12, 2021, the Company issued P18,000,000 retail bonds divided into Series E due in 2025 (P9.0 billion) and Series F due in 2027 (P9.0 billion) with interest rates of 3.4408% p.a. and 4.3368% p.a., respectively. The Bonds are listed on the Philippine Dealing & Exchange Corp. The proceeds were used for the redemption of the Company's Series A Bonds, the partial financing of the power plant project and payment of existing indebtedness.

l. On May 19, 2022, the Company drew and availed a P5,000,000 term loan facility which was signed and executed on May 17, 2022. The facility is subject to a fixed interest rate of 7.1663% per annum and amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 semi-annual payments beginning May 19, 2024. The proceed were used for partial financing of the power plant project.

m. On June 15, 2022, the Company drew and availed a P5,000,000 term loan facility which was signed and executed on June 10, 2022. The facility is subject to a fixed interest rate of 7.4206% interest per annum and amortized over 5 years with a 15^{th}-month grace period, after which the total principal will be amortized in 16 equal quarterly payment beginning September 15, 2023. The proceeds were used to partially pay the US$1,000 term loan facility.

n. On June 16, 2022, the Company drew and availed a P5,000,000 term loan facility which was signed and executed on June 7, 2022. The facility is subject to a fixed interest rate of 7.5496% interest per annum and amortized over 5 years with a 15-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning September 16, 2023. The proceeds were used to pay balances of the US$1,000 million and various loan facilities.

o. On September 8, 2022, the Company drew and availed a P2,375,000 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.4920% per annum and will be fully paid on September 8, 2025. The proceeds were partially used to pay existing indebtedness.

p. On September 30, 2022, the Company drew and availed a P625,000 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.8672% per annum and will be fully paid on September 8, 2025. The proceeds will be used to pay existing indebtedness.

q. On November 8, 2022, the Company signed and executed a US$550 million term loan facility. Initial drawdown of US$117 million was made on November 15, 2022, the proceeds of which were used to partially pay the US$800 million loan term loan facility. On November 29, 2022, the Company drew an additional US$150 million from the facility to fully prepay its US$150 million term loan facility. Additional US$228 million was drawn on December 15, 2022 to further partially prepay the US$800 million loan term loan facility. The US$550 million term loan facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning November 8, 2024. The facility is subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

The above-mentioned debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Company has two financial covenants, namely, net leverage ratio not to exceed 6.5x and ratio of consolidated gross debt to consolidated net worth not to exceed 2.75x. In November 2020, the Company secured consent to amend the testing of its net leverage ratio from semi-annual to incurrence-based, while the ratio of consolidated gross debt to consolidated net worth remained to be tested quarterly.

As of December 31, 2022 and 2021, the Company has complied with the financial covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P6,164,964 and P5,219,670 for the years ended 2022 and 2021, respectively (Note 25). Interest amounting to P268,877 and P130,166 was capitalized in 2022 and 2021, respectively (Note 10).

Movements in debt issue costs follow:

	Note	**2022**	2021
Balance at beginning of year		**P981,426**	P1,368,187
Additions		**955,917**	227,947
Amortization for the year	*25, 32*	**(602,611)**	(614,708)
Balance at end of year		**P1,334,732**	P981,426

Repayment Schedule
As of December 31, 2022 and 2021, the annual maturities of long-term debt are as follows (Note 33):

2022

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2023	**P13,472,429**	**P73,293**	**P13,399,136**
2024	**31,177,494**	**638,269**	**30,539,225**
2025	**31,225,136**	**348,188**	**30,876,948**
2026	**10,885,350**	**131,584**	**10,753,766**
2027 and beyond	**21,635,349**	**143,398**	**21,491,951**
	P108,395,758	**P1,334,732**	**P107,061,026**

2021

Year	Gross Amount	Debt Issue Costs	Net
2022	P21,869,458	P289,188	P21,580,270
2023	31,598,620	299,367	31,299,253
2024	23,784,600	120,514	23,664,086
2025	17,374,500	161,203	17,213,297
2026 and beyond	9,000,000	111,154	8,888,846
	P103,627,178	P981,426	P102,645,752

18. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	**2022**	2021
Balance at beginning of year		**P2,670,930**	P2,859,458
Additions		**2,347**	13,433
Accretion for the year	*25*	**209,451**	173,483
Effect of change in estimates	*4*	**141,045**	85,806
Effect of change in discount rate		**253,757**	(457,565)
Settlement		**(3,415)**	(3,685)
Balance at end of year		**P3,274,115**	P2,670,930

19. Other Noncurrent Liabilities

This account consists of:

	Note	2022	2021
Cash bonds		**P419,116**	P448,841
Cylinder deposits		**291,401**	298,285
Deferred lease	*28*	**181,676**	179,200
Derivative liabilities designated as cash flow hedge		**-**	26,400
Others		**41,906**	37,715
	33, 34	**P934,099**	P990,441

"Others" account includes liability to a contractor and supplier.

20. Equity

a. Capital Stock

Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2022 and 2021, the Company had 144,388 and 144,720 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

Preferred Shares

On January 21, 2010, the SEC approved the Company's amendment to its AOI to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764,404 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the “Series 2A Preferred Shares”) and (ii) 2,877,680 Series 2B preferred shares (the “Series 2B Preferred Shares”). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,888,298 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Company’s BOD.

All shares rank equally as regards to the Company’s residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter’s rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing Company’s AOI. On July 6, 2015, the SEC approved the amendment of the AOI of the Company to provide a re-issuability feature of its preferred shares.

On May 31, 2019, the SEC issued a permit for the Company’s public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the “Series 3 Preferred Shares”) at an issue price of P1,000.00 per share.

On June 25, 2019, the Company issued and listed on the PSE 20,000,000 Series 3 Preferred Shares. The net proceeds from the issuance were used for the repayment of the Company’s outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date. Cash dividends are payable quarterly on March 25, June 25, September 25 and December 25 of each year, as and if declared by the Company’s BOD. Proceeds from issuance in excess of par value less related transaction costs amounting to P17,847,620 was recognized as additional paid-in capital.

On November 4, 2019, the Company redeemed its 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019. The redemption was approved by the Company’s BOD on March 12, 2019.

On November 3, 2021, the Company redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 7, 2019. The redemption was approved by the Company's BOD on March 9, 2021.

As of December 31, 2022 and 2021, the Company had 20,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2022 and 2021 are as follows:

	2022	2021
Series 3A Preferred Shares	**10**	9
Series 3B Preferred Shares	**25**	24
	35	33

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2022 and 2021, the Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	**Per Share**	**Date of Declaration**	**Date of Record**	**Date of Payment**
2022				
Series 3A	**17.17825**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3B	**17.84575**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3B	**17.84575**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**
Series 3B	**17.84575**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
2021				
Series 2B	17.14575	March 9, 2021	April 7, 2021	May 3, 2021
Series 3A	17.17825	March 9, 2021	June 2, 2021	June 25, 2021
Series 3B	17.84575	March 9, 2021	June 2, 2021	June 25, 2021
Series 2B	17.14575	May 3, 2021	July 8, 2021	August 3, 2021
Series 3A	17.17825	May 3, 2021	September 2, 2021	September 27, 2021
Series 3B	17.84575	May 3, 2021	September 2, 2021	September 27, 2021
Series 2B	17.14575	August 3, 2021	October 7, 2021	November 3, 2021
Series 3A	17.17825	August 3, 2021	November 29, 2021	December 27, 2021
Series 3B	17.84575	August 3, 2021	November 29, 2021	December 27, 2021
Series 3A	17.17825	November 9,2021	March 3, 2022	March 25, 2022
Series 3B	17.84575	November 9,2021	March 3, 2022	March 25, 2022
Series 3A	17.17825	November 9,2021	June 3, 2022	June 27, 2022
Series 3B	17.84575	November 9,2021	June 3, 2022	June 27, 2022

Total cash dividends declared amounted to P1,043,906 and P1,899,052 in 2022 and 2021, respectively.

Appropriation for Capital Projects

On May 5, 2016, the Company's BOD approved the re-appropriation of retained earnings amounting to P15,000,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On March 9, 2021, the BOD of the Company approved the reversal of P8,000,000 of the P15,000,000 appropriated retained earnings of the Company since majority of the 2016 and 2017 capital projects were already completed while the others were deferred. The remaining P7,000,000 is maintained for the Power Plant project which is expected to be completed in 2023.

c. Equity reserves comprise of the following:

Reserve for retirement plan pertains to the cumulative remeasurements of the Company's defined benefit retirement plan.

Other reserves comprise the net income on cash flows hedges and effect of redemption of USCS with details as follows:

	Net income on cash flows hedges		Redemption of USCS	
	2022	2021	**2022**	2021
Balance at beginning of year	**(P3,676)**	(P152,643)	**(P9,223,174)**	(P9,223,174)
Movement	**54,665**	148,967	**-**	-
Balance at end of year	**P50,989**	(P3,676)	**(P9,223,174)**	(P9,223,174)

d. SPCS

On January 19, 2018, the Company issued US$500 million SPCS with an issue price of 100% for the partial repurchase and redemption of the Company's existing US$750 million USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. The Company has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Company's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distributions pertaining to US$500 million SPCS were made on the following dates: July 18, 2022 (P863,895), January 18, 2022 (P786,907), July 16, 2021 (P769,779), January 15, 2021 (P736,813).

On April 19, 2021, Petron issued US$550 million Senior Perpetual Capital Securities (SPCS) at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds were used for the repayment of indebtedness and for general corporate purposes.

Payments of distributions pertaining to US$550 million SPCS was made on the following dates: October 18, 2022 (P1,285,656), April 18, 2022 (P1,139,505) and October 18, 2021 (P1,108,440).

The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the SRC was required to be filed with the SEC.

e. RPS

On November 27, 2019, the Company issued US$6 million RPS to be used for capital expenditure requirements.

Holders of the RPS are conferred a right to receive distribution on a quarterly basis, every February 27, May 27, August 27 and November 27. The Company has a right to defer the distribution under certain conditions.

Distributions to holders of the RPS were made on November 25, 2022 (P3,405), August 30, 2022 (P3,375), May 27, 2022 (P3,138), March 1, 2022 (P3,075), November 27, 2021 (P3,027), August 27, 2021 (P3,003), May 27, 2021 (P2,885), and February 27, 2021 (P2,919).

On June 22, 2020, the Company issued US$130 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every March 22, June 22, September 22 and December 22.

Payments of distributions pertaining to RPS were made on December 22, 2022 (P64,950), September 22, 2022 (P68,810), June 22, 2022 (P64,189), March 22, 2022 (P61,766), December 22, 2021 (P58,951), September 22, 2021 (P59,121), June 22, 2021 (P57,395), and March 22, 2021 (P57,238).

On August 10, 2020, the Company issued additional US$100 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every February 10, May 10, August 10 and November 10.

Payments of distributions pertaining to RPS were made on November 10, 2022 (P52,676), August 10, 2022 (50,525), May 10, 2022 (P47,489), February 10, 2022 (P46,461), November 10, 2021 (P45,374), August 10, 2021 (P45,670), May 10, 2021 (P43,341), February 10, 2021 (P43,536).

The RPS have no fixed redemption date and are redeemable in whole or in part at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Company’s option on any distribution payment date after 90 days from Issuance Date.

21. Cost of Goods Sold

This account consists of:

	Note	**2022**	2021
Inventories	*8*	**P391,713,061**	P205,617,316
Depreciation and amortization	*24*	**6,577,887**	4,937,394
Materials and supplies		**5,120,351**	3,351,558
Purchased services and utilities		**1,843,015**	771,722
Personnel expenses	*23*	**1,084,047**	961,762
Others	*28, 30*	**2,422,773**	2,126,660
		P408,761,134	P217,766,412

Distribution or transshipment costs included as part of inventories amounted to P5,531,018 and P3,426,260 in 2022 and 2021, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

22. Selling and Administrative Expenses

This account consists of:

	Note	**2022**	2021
Depreciation and amortization	*24*	**P3,061,202**	P3,096,920
Purchased services and utilities		**2,516,171**	2,467,729
Personnel expenses	*23*	**2,472,768**	2,078,826
Maintenance and repairs		**878,724**	845,256
Materials and office supplies		**620,640**	549,684
Rent	*4, 28, 30*	**328,265**	149,280
Advertising		**226,973**	178,940
Taxes and licenses		**225,962**	205,236
Insurance		**54,861**	70,655
Additional allowance for (net reversal of) impairment losses on trade and other receivables	*4, 7*	**(3,692)**	8,162
Others		**23,451**	13,912
		P10,405,325	P9,664,600

Selling and administrative expenses include research and development costs amounting to P61,072 and P61,718 in 2022 and 2021, respectively (Note 8).

23. Personnel Expenses

This account consists of:

	Note	**2022**	2021
Salaries, wages and other employee costs	*27*	**P3,179,995**	P2,749,626
Retirement benefits costs - defined benefit plan	*27, 29*	**293,760**	211,533
Retirement benefits costs - defined contribution plan	*27*	**83,060**	79,429
		P3,556,815	P3,040,588

The above amounts are distributed as follows:

	Note	**2022**	2021
Cost of goods sold	*21*	**P1,084,047**	P961,762
Selling and administrative expenses	*22*	**2,472,768**	2,078,826
		P3,556,815	P3,040,588

24. Depreciation and Amortization

This account consists of:

	Note	**2022**	2021
Cost of goods sold:			
Property, plant and equipment	*10*	**P6,130,360**	P4,559,346
Right-of-use assets	*11*	**226,165**	215,976
Other assets	*13*	**221,362**	162,072
	21	**6,577,887**	4,937,394
Selling and administrative expenses:			
Property, plant and equipment	*10*	**1,276,702**	1,382,106
Right-of-use assets	*11*	**378,155**	361,429
Investment property	*12*	**1,390,521**	1,337,561
Intangible assets	*13*	**15,824**	15,824
	22	**3,061,202**	3,096,920
		P9,639,089	P8,034,314

25. Interest Expense and Other Financing Charges, Interest Income and Other Income - net

This account consists of:

	Note	**2022**	2021
Interest expense and other financing charges:			
Long-term debt	*17*	**P5,319,758**	P4,490,125
Short-term loans	*14*	**3,712,237**	1,834,408
Bank charges		**1,122,581**	1,114,927
Accretion on lease liabilities	*28*	**1,117,742**	1,178,206
Amortization of debt issue costs	*17, 32*	**576,329**	599,379
Accretion on ARO	*18*	**209,451**	173,483
Defined benefit obligation	*29*	**174,882**	150,802
Others		**58,596**	182,043
		P12,291,576	P9,723,373
Interest income:			
Short-term placements	*5*	**P533,621**	P329,197
Advances to related parties	*27*	**147,072**	174,467
Plan assets	*29*	**72,655**	55,630
Trade receivables	*7*	**20,140**	19,104
Hedging	*34*	**17,021**	-
Cash in banks	*5*	**9,982**	9,939
		P800,491	P588,337

Forward

	Note	2022	2021
Other income - net:			
Marked-to-market gains - net	*34*	**P3,894,533**	P361,003
Dividend income	*9*	**2,276,056**	1,312,190
Changes in fair value of financial assets at FVPL	*6*	**54,260**	22,560
Gain on deconsolidation	*9*	**-**	733,365
Insurance claims		**-**	238
Impairment loss on investments in shares of stock of subsidiaries and joint venture	*9*	**(43,629)**	(80,033)
Hedging gains (losses) - net		**(739,083)**	104,492
Foreign currency (losses) - net	*33*	**(3,198,039)**	(1,083,338)
Others - net	*9, 27*	**563,717**	299,137
		P2,807,815	P1,669,614

Bank charges amounting to P48,754 and to P27,693 was capitalized in 2022 and 2021, respectively (Note 10).

26. Income Taxes

The components of income tax expense (benefit) are shown below:

	2022	2021
Current	**P328,871**	P201,886
Deferred	**568,908**	(243,873)
	P897,779	(P41,987)

The movements of deferred tax assets and liabilities are accounted for as follows:

2022	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
NOLCO	**P7,793,250**	**(P1,067,941)**	**P -**	**P6,725,309**
Various allowances, accruals and others	**2,116,882**	**(189,893)**	**-**	**1,926,989**
Net retirement benefits liability	**1,745,692**	**(145,023)**	**161,803**	**1,762,472**
Rental	**1,250,704**	**80,128**	**-**	**1,330,832**
MCIT	**688,906**	**(180,828)**	**-**	**508,078**
ARO	**412,209**	**70,243**	**-**	**482,452**
Inventory differential	**(181,924)**	**772,798**	**-**	**590,874**
Unrealized foreign exchange gains - net	**(222,889)**	**264,974**	**(18,222)**	**23,863**
Capitalized taxes and duties on inventories deducted in advance	**(764,202)**	**(83,854)**	**-**	**(848,056)**
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	**(3,544,422)**	**80,402**	**-**	**(3,464,020)**
Excess of double-declining over straight-line method of depreciation and amortization	**(7,473,307)**	**(169,914)**	**-**	**(7,643,221)**
	P1,820,899	**(P568,908)**	**143,581**	**P1,395,572**

2021	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
NOLCO	P8,847,356	(P1,054,106)	P -	P7,793,250
Various allowances, accruals and others	2,604,955	(488,073)	-	2,116,882
Net retirement benefits liability	2,064,637	(124,749)	(194,196)	1,745,692
Rental	1,618,545	(367,841)	-	1,250,704
MCIT	491,489	197,417	-	688,906
ARO	296,561	115,648	-	412,209
Inventory differential	72,922	(254,846)	-	(181,924)
Unrealized foreign exchange gains - net	(981,958)	823,262	(64,193)	(222,889)
Capitalized taxes and duties on inventories deducted in advance	(1,234,260)	470,058	-	(764,202)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(4,306,908)	762,486	-	(3,544,422)
Excess of double-declining over straight-line method of depreciation and amortization	(7,637,924)	164,617	-	(7,473,307)
	P1,835,415	P243,873	(P258,389)	P1,820,899

As of December 31, 2022, the NOLCO and MCIT of the Company that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
2020	December 31, 2025	**P25,208,869**	**P -**
2021	December 31, 2026	**1,677,882**	**197,417**
2022	December 31, 2025	**-**	**310,661**
		P26,886,751	**P508,078**

As of December 31, 2021, the NOLCO and MCIT of the Company that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2019	December 31, 2022	P4,271,761	P491,489
2020	December 31, 2025	25,208,869	-
2021	December 31, 2026	1,677,882	197,417
		P31,158,512	P688,906

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense (benefit) reported in the separate statements of comprehensive income is as follows:

	2022	2021
Statutory income tax rate	**25.00%**	25.00%
Increase (decrease) in income tax rate resulting from:		
Write off of NOLCO/MCIT	**17.75%**	-
Nondeductible interest expense	**0.15%**	0.04%
Nondeductible expense	**0.05%**	(6.92%)
Others - penalties, interests and compromise	-	(1.73%)
Change in tax rate - DIT	-	(5.44%)
Interest income subjected to lower final tax and others	**(0.24%)**	(0.05%)
Nontaxable income	**(16.57%)**	(12.50%)
Effective income tax rate	**26.14%**	(1.60%)

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.
The CREATE Act, which seeks to reduce the corporate income tax rates and rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Company are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021.

The impact on the separate financial statements of the Company based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE Law are as follows:

	Increase (Decrease)
ASSETS	
Deferred tax assets	(P223,005)
TOTAL ASSETS	**(P223,005)**
EQUITY	
Equity reserves	P365,876
TOTAL EQUITY	**P365,876**
INCOME TAX EXPENSE	
Deferred	(P142,871)
	(P142,871)

27. Related Party Disclosures

The Company, certain subsidiaries, joint venture, associate and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. The Company requires approval of the BOD for certain limits on the amount and extent of transactions with related parties.

Amounts owed by/owed to related parties are collectible/to be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent	*b, p*	**2022**	**P95**	**P -**	**P50**	**P -**	On demand;	Unsecured;
		2021	63	-	13	-	non-interest bearing	no impairment
Retirement Plan	*7, 29, a*	**2022**	**57,671**	**-**	**893,548**	**-**	On demand;	Unsecured;
		2021	78,203	-	1,137,608	-	interest bearing	no impairment
Intermediate	*b, c, e, g, p,*	**2022**	**19,953**	**206,784**	**16,088**	**452,717**	On demand;	Unsecured;
Parent	*q*	2021	19,595	166,558	16,858	333,279	non-interest bearing	no impairment
Subsidiaries	*ı, i, j, k, l, p, q*	**2022**	**19,159,054**	**296,312,949**	**6,501,657**	**30,832,948**	On demand;	Unsecured;
		2021	15,841,579	150,119,737	3,793,840	23,926,700	non-interest bearing	no impairment
Associate	*f, k, p, q*	**2022**	**423**	**143,488**	**68,798**	**28,715**	On demand;	Unsecured;
		2021	245	158,782	200,067	100,454	non-interest bearing	no impairment
Under	*b, c, d, o, p, q, m*	**2022**	**16,410,044**	**4,624,721**	**6,070,952**	**2,152,854**	On demand;	Unsecured;
Common		2021	7,673,288	4,095,381	2,421,321	2,291,187	non-interest bearing	no impairment
Control								
		2022	**-**	**34,847**	**-**	**3,345,300**	On demand;	Unsecured;
	m	2021	-	**-**	-	-	interest bearing	no impairment
Associates and	*n*	**2022**	**-**	**101,482**	**-**	**2,865,000**	Short-term; interest	Unsecured;
Joint Venture		2021	-	64,410	-	2,000,000	bearing	no impairment
under Common								
Control	*b, p*	**2022**	**365,426**	**-**	**71,402**	**18,520**	On demand;	Unsecured;
		2021	204,225	-	44,760	2,800	non-interest bearing	no impairment
		2022	**P36,012,666**	**P301,424,271**	**P13,622,495**	**P39,696,054**		
		2021	P23,817,198	P154,604,868	P7,614,467	P28,654,420		

a. As of December 31, 2022 and 2021, the Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" account in the separate statements of financial position, for some investment opportunities (Notes 7 and 29).

b. Sales relate to the Company's supply agreements with TF, SMC and various SMC subsidiaries. Under these agreements, the Company supplies diesel fuel, gasoline and lubes requirements of selected SMC plants and subsidiaries.

c. Purchases relate to purchase of goods and services such as construction, information technology, shipping and terminalling from SMC and various SMC subsidiaries.

d. Petron entered into a various lease agreements with San Miguel Properties, Inc. for office space covering 6,747 square meters and certain parcel of lands where service stations are located.

e. Petron has existing lease agreements with SMC covering certain parcel of lands where service stations are located.

f. On February 4, 2021, Petrogen became an associate of the Company as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares in Petrogen (Note 9).

g. The Company also pays SMC for its share in common expenses such as utilities and management fees.

h. Petron has existing logistics and freight forwarding agreement with PLI.

i. The Company has long-term lease agreements with NVRC covering certain parcels of land whereby the Company pays annual fixed rentals and uses the premises for petroleum marketing business for a period of 30 years (Note 30).

j. The Company also grants unsecured, noninterest and interest-bearing cash advances (interest rates ranging from 5% to 9%) to NVRC, which are payable monthly over an average period of 25 years. The advances are initially recognized at their present values at the time of grant and are subsequently accreted to their maturity values at their effective yields.

k. The Company obtains insurance coverage from Petrogen, which in turn obtains reinsurance coverage from Ovincor and other local reinsurers.

l. Petron has an existing trading agreement with PSTPL for the procurement of crude oil and trading of finished petroleum products and other materials such as ethanol, coal, catalysts and additives (Note 30).

m. Amounts owed to entities under common control include interest-bearing advances from San Miguel Insurance Company Ltd.

n. Amounts owed to associate of entities under common control include interest-bearing short-term loans payable to Bank of Commerce.

o. On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition of the Treats convenience store business by the Company was executed, for an aggregate purchase price of P67,955.

p. Amounts owed by related parties consist of trade and non-trade receivables, advances and prepaid expenses.

q. Amounts owed to related parties consist of trade payables, non-trade payables and other noncurrent liabilities.

r. The compensation and benefits of key management personnel of the Company, by benefit type, included in the "Personnel expenses" account follow (Note 23):

	2022	2021
Salaries and other short-term employee benefits	**P818,705**	P665,653
Retirement benefits costs - defined benefit plan	**138,890**	103,632
Retirement benefits costs - defined contribution plan	**21,358**	18,516
	P978,953	P787,801

28. Lease Commitments

Company as Lessee

The Company entered into commercial leases on office space, buildings, machinery and equipment service stations and certain parcels of land for its refinery and service stations (Note 11, 12 and 30). These leases' life ranges from one to 30 years with renewal options included in the contracts. There are no restrictions placed upon the Company by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Amounts recognized in profit or loss.

	Note	2022	2021
Interest on lease liabilities	*11*	**P1,117,742**	P1,178,206
Income from sub-leasing		**(443,949)**	(415,863)
Expenses relating to short-term leases		**458,498**	264,338
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		**10,226**	8,026
		P1,142,517	P1,034,707

Rent expense included in cost of goods sold - others amounted to P140,460 in 2022 and P123,083 in 2021 (Note 21). Interest amounting to P49,246 and P29,534 was capitalized as part of property, plant and equipment in 2022 and 2021, respectively (Note 10).

Amounts recognized in separate statements of cashflows.

	Note	2022	2021
Interest expense under operating activities	*32*	**P1,117,742**	P1,178,206
Principal lease payments under financing activities	*32*	**1,091,433**	1,060,521
Cash outflows for short term and low value lease		**468,724**	272,364

Company as Lessor - Operating Lease

The Company has entered into lease agreements on its service stations and other related structures. The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

The following table sets out a maturity analysis of lease payments, showing undiscounted lease payments to be received after the reporting period.

	2022	2021
Less than one year	**P93,723**	P63,397
One to two years	**22,715**	17,551
Two to three years	**20,228**	17,021
Three to four years	**14,180**	15,954
Four to five years	**2,659**	12,480
More than five years	**10,744**	11,732
	P164,249	P138,135

29. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plan recognized in separate statements of comprehensive income and the funding status and amounts of retirement plan recognized in the separate statements of financial position. The Company has a funded, noncontributory, defined benefit retirement plan. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is as of December 31, 2022. Valuations are obtained on a periodic basis.

The Company's retirement plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Present Value of Defined Benefit Obligation		Fair Value of Plan Assets		Net Defined Benefit Retirement Liability	
	2022	2021	**2022**	2021	**2022**	2021
Balance at beginning of year	**(P3,458,509)**	(P3,817,788)	**P1,029,661**	P1,058,982	**(P2,428,848)**	(P2,758,806)
Recognized in Profit or Loss						
Current service cost	**(189,394)**	(211,533)	**-**	-	**(189,394)**	(211,533)
Past service cost - plan amendment*	**(104,366)**	-	**-**	-	**(104,366)**	-
Interest expense	**(174,882)**	(150,802)	**-**	-	**(174,882)**	(150,802)
Interest income	**-**	-	**72,655**	55,630	**72,655**	55,630
	(468,642)	(362,335)	**72,655**	55,630	**(395,987)**	(306,705)
Recognized in Other Comprehensive Income						
Remeasurements:						
Actuarial gains (losses) arising from:						
Experience adjustments	**(145,577)**	(152,900)	**-**	-	**(145,577)**	(152,900)
Changes in financial assumptions	**266,827**	233,954	**-**	-	**266,827**	233,954
Changes in demographic assumptions	**1,934**	29,321	**-**	-	**1,934**	29,321
Return on plan asset excluding interest	**-**	-	**(770,396)**	(783,712)	**(770,396)**	(783,712)
	123,184	110,375	**(770,396)**	(783,712)	**(647,212)**	(673,337)
Others						
Contributions	**-**	-	**1,200,000**	1,310,000	**1,200,000**	1,310,000
Benefits paid	**358,938**	611,239	**(358,938)**	(611,239)	**-**	-
	358,938	611,239	**841,062**	698,761	**1,200,000**	1,310,000
Balance at end of year	**(P3,445,029)**	(P3,458,509)	**P1,172,982**	P1,029,661	**(P2,272,047)**	(P2,428,848)

**In 2022, the Company added disability benefit for employees hired before January 1, 2022 resulting in the recognition of past service cost.*

The carrying amounts of the Company's retirement fund approximate fair values as of December 31, 2022 and 2021.

Plan assets consist of the following:

	2022	2021
Shares of stock:		
Quoted	**63%**	72%
Unquoted	**15%**	12%
Government securities	**13%**	11%
Cash and cash equivalents	**5%**	4%
Others	**4%**	1%
	100%	100%

Investment in Shares of Stock. As of December 31, 2022 and 2021, the Company's plan assets include 459,156,097 common shares of Petron with fair market value per share of P2.40 and P3.17 as of December 31, 2022 and 2021, respectively, and 14,250,900 common shares of SMC with fair market value per share of P92.95 and P114.90 as of December 31, 2022 and 2021, respectively.

The Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P666,357 and P564,620 in 2022 and 2021, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P14,963 and P19,951 in 2022 and 2021, respectively.

Government Securities represents debt instruments issued by sovereign government mainly held by two trustee banks of the plan.

Others include receivables, unit investment trust funds, and debt instruments which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Company expects to contribute P514,629 to its defined benefit retirement plan in 2023.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Risk. The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Company's long-term strategy to manage the plans efficiently.

Longevity and Salary Risks. The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2022	2021
Discount rate	**7.41%**	5.01%
Future salary increases	**5.00%**	4.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.2 years and 6.0 years as of December 31, 2022 and 2021, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit liabilities/assets by the amounts below:

	Defined Benefit Liabilities	
2022	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P166,751)**	**P187,330**
Salary increase rate	**189,977**	**(171,908)**

	Defined Benefit Liabilities	
2021	1 Percent Increase	1 Percent Decrease
Discount rate	(P193,141)	P219,805
Salary increase rate	219,827	(196,676)

The Company has advances to PCERP amounting to P893,549 and P1,137,608 as of December 31, 2022 and 2021, respectively, included as part of "Trade and other receivables - net" account in the separate statements of financial position (Notes 7 and 27). The advances are subject to interest of 5% in 2022 and 2021 (Note 25).

In 2022 and 2021, portion of the Company's interest-bearing advances to PCERP were converted into contribution to the retirement plan (Note 27).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2022 and 2021 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2022 and 2021.

30. Significant Agreements

Supply Agreements. The Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) and/or Khafji Crude Oil (Khafji) at pricing based on latter's standard KEC/Khafji prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice while the contract with KPC is from July 1, 2022 to June 30, 2023.

Outstanding liabilities of the Company for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the separate statements of financial position as of December 31, 2022 and 2021 (Note 15).

Lease Agreements with Philippine National Oil Company (PNOC). On September 30, 2009, the Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P190,515 starting 2017, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised every fifth year in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, the Company had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2022 and 2021, the Company leases other parcels of land from PNOC for its bulk plants and service stations (Note 38).

31. Basic and Diluted Loss Per Share

Basic and diluted loss per share amounts are computed as follows:

	2022	2021
Net income for the year	**P2,536,160**	P2,667,232
Dividends on preferred shares for the year	**(1,043,906)**	(1,899,052)
Distributions to the holders of capital securities	**(4,545,822)**	(3,037,492)
Net loss attributable to common shareholders of the Company (a)	**(P3,053,568)**	(P2,269,312)
Weighted average number of common shares outstanding (in thousands) (b)	**9,375,104**	9,375,104
Basic/diluted loss per share (a/b)	**(P0.33)**	(P0.24)

As of December 31, 2022 and 2021, the Company has no potential dilutive debt or equity instruments.

32. Supplemental Cash Flow Information

Supplemental information with respect to the separate statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the separate statements of financial position):

	2022	2021
Decrease (increase) in assets:		
Trade and other receivables	**(P23,445,414)**	(P8,213,590)
Inventories	**(13,334,369)**	(15,402,804)
Other current assets	**(5,128,410)**	976,258
Increase (decrease) in liabilities:		
Liabilities for crude oil and petroleum products	**1,965,691**	7,293,832
Trade and other payables	**7,437,767**	2,175,998
	(32,504,735)	(13,170,306)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence and others	**84,460**	(36,429)
	(P32,420,275)	(P13,206,735)

b. Changes in liabilities arising from financing activities:

	Dividends Payable	Lease Liabilities	Advances from a Related Party	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2022	**P828,975**	**P15,792,135**	**P -**	**P94,207,500**	**P102,645,752**	**P213,474,363**
Changes from Financing Cash Flows						
Payments of principal	**-**	**(1,091,433)**	**-**	**-**	**-**	**(1,091,433)**
Proceeds from availment of loans/bonds/leases/advances	**-**	**-**	**3,362,280**	**245,208,000**	**44,952,792**	**293,523,072**
Payments of loans and bonds	**-**	**-**	**-**	**(217,060,500)**	**(44,338,695)**	**(261,399,195)**
Dividends and distributions declared	**5,589,728**	**-**	**-**	**-**	**-**	**5,589,728**
Dividends and distributions paid	**(5,948,062)**	**-**	**-**	**-**	**-**	**(5,948,062)**
Total changes from financing cash flows	**(358,334)**	**(1,091,433)**	**3,362,280**	**28,147,500**	**614,097**	**30,674,110**
New leases	**-**	**355,330**	**-**	**-**	**-**	**355,330**
Interest expense	**-**	**1,117,742**	**-**	**-**	**-**	**1,117,742**
Interest paid	**-**	**(1,117,742)**	**-**	**-**	**-**	**(1,117,742)**
Effects of changes in foreign exchange rates	**-**	**-**	**-**	**-**	**3,198,566**	**3,198,566**
Amortization of debt issue costs	**-**	**-**	**-**	**-**	**602,611**	**602,611**
Balance as of December 31, 2022	**P470,641**	**P15,056,032**	**P3,362,280**	**P122,355,000**	**P107,061,026**	**P248,304,979**

	Dividends Payable	Lease Liabilities	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2021	P504,961	P16,293,702	P72,693,460	P119,454,007	P208,946,130
Changes from Financing Cash Flows					
Payments of principal	-	(1,060,521)	-	-	(1,060,521)
Proceeds from availment of loans/bonds/leases	-	-	186,635,500	17,772,053	204,407,553
Payments of loans and bonds	-	-	(165,132,280)	(37,220,547)	(202,352,827)
Dividends and distributions declared	4,936,544	-	-	-	4,936,544
Dividends and distributions paid	(4,612,530)	-	-	-	(4,612,530)
Total changes from financing cash flows	324,014	(1,060,521)	21,503,220	(19,448,494)	1,318,219
New leases	-	558,954	-	-	558,954
Interest expense	-	1,178,206	-	-	1,178,206
Interest paid	-	(1,178,206)	-	-	(1,178,206)
Effects of changes in foreign exchange rates	-	-	10,820	2,025,531	2,036,351
Amortization of debt issue costs	-	-	-	614,708	614,708
Balance as of December 31, 2021	P828,975	P15,792,135	P94,207,500	P102,645,752	P213,474,362

33. Financial Risk Management Objectives and Policies

The Company's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as to partly fund capital expenditures. The Company has other financial assets and liabilities such as trade and other receivables and trade and other payables, which are generated directly from its operations.

It is the Company's policy not to enter into derivative transactions for speculative purposes. The Company uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan, respectively.

The main risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The BOD regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

Risk Management Structure
The Company follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

The Company's risk management process is a bottom-up approach, with each risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Company's operation is an integrated value chain, risks emanate from every process, while some could cut across groups. The results of these activities flow up to the Management Committee and, eventually, to the BOD through the Company's annual business planning process.

Oversight and technical assistance is likewise provided by corporate units and committees with special duties. These groups and their functions are:

a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

b. The Treasurers Department, which is in charge of foreign exchange hedging transactions.

c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.

d. The Corporate Technical and Engineering Services Department, which oversees strict adherence to safety and environmental mandates across all facilities.

e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.

g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Company.

The BOD also created separate positions and board-level entities with explicit authority and responsibility in managing and monitoring risks, as follows:

a. The Audit Committee is responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

   The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness.

c. The Compliance Officer, who is a senior officer of the Company reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Company before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

Foreign Currency Risk

The Company's functional currency is the Philippine peso, which is the denomination of the bulk of its revenues. The Company's exposures to foreign currency risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Company maintains a level of US dollar-denominated assets and liabilities during the year. Foreign exchange risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

The Company pursues a policy of mitigating foreign currency risk by entering into hedging transactions or by substituting US dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Company is allowed to engage in active risk management strategies for a portion of its foreign currency risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

The Company assesses the existence of an economic relationship between the hedged item and the hedging instrument based on the currency, amount, and timing of their respective cash flows. For derivatives designated in a hedging relationship, the Company determines whether the derivatives are expected to be highly effective in offsetting the changes in the cash flows of the hedged item using the cumulative dollar-offset method. The dollar offset method approximates the changes in the fair value of the hedged item using a hypothetical derivative which mirrors the terms of the derivative used as hedging instrument.

For currency hedges, the Company maintains a 1:1 hedge ratio since a similar amount of hedging instrument is expected to offset the changes in the cash flows of the hedged item. The main sources of ineffectiveness are:

a. the effect of the counterparty and the Company's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the exchange rates; and

b. changes in the timing of the hedged transactions.

The Company is exposed to foreign currency risk of its short-term loans and US dollar-denominated sales and purchases. On the other hand, both foreign currency and interest rate risks arise in the Company's long-term debts. The Company determined that foreign currency risk is a separately identifiable and measurable risk component eligible for designation since it is caused by fluctuations in US dollar to Philippine peso exchange rates and benchmark closing prices used to measure the fluctuations are available in the market.

Information on the Company's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2022		2021	
	US Dollar	**Phil. Peso Equivalent**	US Dollar	Phil. Peso Equivalent
Financial Assets				
Cash and cash equivalents	**421,958**	**23,526,268**	414,097	21,118,533
Trade and other receivables	**110,074**	**6,137,176**	47,007	2,397,310
Other assets	**19,939**	**1,111,699**	11,704	596,892
	551,971	**30,775,143**	472,808	24,112,735
Financial Liabilities				
Liabilities for crude oil and petroleum products	**444,963**	**24,808,912**	380,232	19,391,452
Long-term debt (including current maturities)	**690,893**	**38,520,739**	879,612	44,859,332
Other liabilities	**49,772**	**2,775,038**	14,053	716,689
	1,185,628	**66,104,689**	1,273,897	64,967,473
Net foreign currency - denominated monetary liabilities	**(633,657)**	**(35,329,546)**	(801,089)	(40,854,738)

The Company incurred net foreign currency loss amounting to P3,198,039 and P1,083,338 in 2022 and 2021, respectively (Note 25), which were mainly countered by marked-to-market and realized hedging gains (Note 25). The foreign exchange rates from Philippine peso (PhP) to US dollar (US$) as of December 31 are shown in the following table:

	Php to US$
December 31, 2022	**55.755**
December 31, 2021	50.999

Managing foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings and equity reserves arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2022 and 2021:

	P1 Decrease in the US dollar Exchange Rate		**P1 Increase in the US dollar Exchange Rate**	
2022	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P421,958)**	**(P316,469)**	**P421,958**	**P316,469**
Trade and other receivables	**(110,074)**	**(82,556)**	**110,074**	**82,556**
Other assets	**(19,939)**	**(14,954)**	**19,939**	**14,954**
	(551,971)	**(413,979)**	**551,971**	**413,979**
Short-term loan	**-**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**444,963**	**333,722**	**(444,963)**	**(333,722)**
Long-term debt (including current maturities)	**690,893**	**518,170**	**(690,893)**	**(518,170)**
Other liabilities	**49,772**	**37,329**	**(49,772)**	**(37,329)**
	1,185,628	**889,221**	**(1,185,628)**	**(889,221)**
	P633,657	**P475,242**	**(P633,657)**	**(P475,242)**

2021	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P414,097)	(P310,573)	P414,097	P310,573
Trade and other receivables	(47,007)	(35,255)	47,007	35,255
Other assets	(11,704)	(8,778)	11,704	8,778
	(472,808)	(354,606)	472,808	354,606
Short-term loan	-	-	-	-
Liabilities for crude oil and petroleum products	380,232	285,174	(380,232)	(285,174)
Long-term debt (including current maturities)	879,612	659,709	(879,612)	(659,709)
Other liabilities	14,053	10,540	(14,053)	(10,540)
	1,273,897	955,423	(1,273,897)	(955,423)
	P801,089	P600,817	(P801,089)	(P600,817)

Exposures to foreign currency risk vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Company's exposure to changes in interest rates relates mainly to the long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Company's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Company invests only in high-quality securities while maintaining the necessary diversification to avoid concentration of risk.

In managing interest rate risk, the Company aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on separate statements of comprehensive income.

Managing interest rate risk is also supplemented by monitoring the sensitivity of Company's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in separate statements of comprehensive income, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Company's profit before tax (through the impact on floating rate borrowings) and equity by P385,208 and P448,593 in 2022 and 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2022 and 2021, the terms and maturity profile of the interest-bearing financial instruments, together with its gross undiscounted amounts, are shown in the following tables (Note 17):

2022	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P11,642,858**	**P19,057,143**	**P22,425,000**	**P3,000,000**	**P13,750,000**	**P -**	**P69,875,001**
Interest rate	**4.5% - 7.5%**	**4.6% - 7.8%**	**3.4% - 8.1%**	**7.2% - 7.5%**	**4.3% - 7.5%**	**-**	**-**
Floating Rate							
US$ denominated (expressed in Php)	**-**	**10,290,780**	**7,885,350**	**7,885,350**	**7,885,349**	**-**	**33,946,829**
Interest rate*	**-**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**-**	**-**
Floating Rate							
JP¥ denominated (expressed in Php)	**1,829,571**	**1,829,571**	**914,786**	**-**	**-**	**-**	**4,573,928**
Interest rate*	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**	**-**	**-**	**-**	**-**
	P13,472,429	**P31,177,494**	**P31,225,136**	**P10,885,350**	**P21,635,349**	**P -**	**P108,395,758**

**The Company reprices every month but has been given an option to reprice every 3 or 6 months.*

2021	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P6,892,857	P10,392,857	P16,057,143	P16,425,000	P -	P9,000,000	P58,767,857
Interest rate	4.6% - 5.8%	4.6% - 5.8%	4.6% - 7.8%	4.6% - 8.1%	-	4.3%	-
Floating Rate							
US$ denominated (expressed in Php)	13,077,601	19,306,763	5,828,457	-	-	-	38,212,821
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	-	-
Floating Rate							
JP¥ denominated (expressed in Php)	1,899,000	1,899,000	1,899,000	949,500	-	-	6,646,500
Interest rate*	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	-	-	-
	P21,869,458	P31,598,620	P23,784,600	P17,374,500	P -	P9,000,000	P103,627,178

**The Company reprices every month but has been given an option to reprice every 3 or 6 months.*

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Trade Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the separate statements of financial position or in the notes to separate financial statements, as summarized below:

	Note	**2022**	2021
Cash in banks and cash equivalents	*5*	**P25,629,924**	P26,070,566
Derivative assets	*6*	**1,111,717**	596,899
Trade and other receivables - net	*7*	**53,092,113**	30,311,296
Advances to a subsidiary	*9*	**1,078,037**	1,159,707
		P80,911,791	P58,138,468

Cash and Cash Equivalents, Advances to a Subsidiary and Derivative Assets
Cash and cash equivalents, advances to a subsidiary and derivative assets are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents, advances to a subsidiary and derivative assets has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents, advances to a subsidiary and derivative assets have low credit risk based on the external credit ratings of its counterparties.

Trade and Other Receivables
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 36.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer’s nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

Class A “*High Grade*” are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B “*Moderate Grade*” refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C “*Low Grade*” are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Company’s trade accounts receivable as of December 31, 2022 and 2021:

	Trade Accounts Receivables Per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2022				
Retail	**P1,091,481**	**P2,722,669**	**P963,633**	**P4,777,783**
Lubes	**626,146**	**166,726**	**48,336**	**841,208**
Gasul	**781,506**	**327,032**	**163,793**	**1,272,331**
Industrial	**21,388,470**	**2,502,067**	**5,384,182**	**29,274,719**
Others	**4,665,621**	**3,466,816**	**541,984**	**8,674,421**
	P28,553,224	**P9,185,310**	**P7,101,928**	**P44,840,462**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2021				
Retail	P3,381,602	P383,724	P103,640	P3,868,966
Lubes	595,532	6,964	7,664	610,160
Gasul	1,111,465	9,571	52,680	1,173,716
Industrial	14,903,605	1,100,271	352,555	16,356,431
Others	3,914,397	218,702	282,402	4,415,501
	P23,906,601	P1,719,232	P798,941	P26,424,774

Collaterals. To the extent practicable, the Company also requires collateral as security for a credit facility to mitigate credit risk in trade and other receivables (Note 7). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, and cash bonds valued at P3,273,558 and P2,968,483 as of December 31, 2022 and 2021, respectively. These securities may only be called on or applied upon default of customers.

Risk Concentration. The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of homogenous trade customers. The Company does not execute any credit guarantee in favor of any counterparty.

The table below presents the summary of the Company's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2022					
	Financial Assets at Amortized Cost					
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash in banks and cash equivalents	**P25,629,924**	**P -**	**P -**	**P -**	**P -**	**P25,629,924**
Trade and other receivables	**-**	**53,092,113**	**850,142**	**-**	**-**	**53,942,255**
Advances to a subsidiary	**1,078,037**	**-**	**-**	**-**	**-**	**1,078,037**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**931,079**	**-**	**931,079**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**180,638**	**180,638**
	P26,707,961	**P53,092,113**	**P850,142**	**P931,079**	**P180,638**	**P81,761,933**

	2021					
	Financial Assets at Amortized Cost					
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash in banks and cash equivalents	P26,070,566	P -	P -	P -	P -	P26,070,566
Trade and other receivables	-	30,311,296	943,594	-	-	31,254,890
Advances to a subsidiary	1,159,707	-	-	-	-	1,159,707
Derivative assets not designated as cash flow hedge	-	-	-	543,909	-	543,909
Derivative assets designated as cash flow hedge	-	-	-	-	52,990	52,990
	P27,230,273	P30,311,296	P943,594	P543,909	P52,990	P59,082,062

Liquidity Risk

Liquidity risk pertains to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Company constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The Company also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2022 and 2021.

2022	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Year - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P26,989,260**	**P26,989,260**	**P26,989,260**	**P -**	**P -**	**P -**
Trade and other receivables	**53,092,113**	**53,092,113**	**53,092,113**	**-**	**-**	**-**
Advances to a subsidiary	**1,078,037**	**1,078,037**	**-**	**1,078,037**	**-**	**-**
Derivative assets (including non-current portion)	**1,111,717**	**1,111,717**	**1,074,244**	**37,473**	**-**	**-**
Proprietary membership shares	**352,123**	**352,123**	**352,123**	**-**	**-**	**-**
Financial Liabilities						
Short-term loans	**122,355,000**	**123,464,798**	**123,464,798**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**23,438,723**	**23,438,723**	**23,438,723**	**-**	**-**	**-**
Trade and other payables*	**10,828,316**	**10,828,316**	**10,828,316**	**-**	**-**	**-**
Derivative liabilities (including non-current portion)	**323,455**	**323,455**	**323,455**	**-**	**-**	**-**
Long-term debt (including current maturities)	**107,061,026**	**125,709,758**	**20,122,794**	**35,912,561**	**69,674,403**	**-**
Lease liabilities (including current portion)	**15,056,032**	**24,277,035**	**2,188,247**	**2,064,391**	**7,715,521**	**14,373,537**
Cash bonds	**419,116**	**419,339**	**-**	**403,320**	**15,850**	**169**
Cylinder deposits	**291,401**	**291,401**	**-**	**-**	**-**	**291,401**
Other noncurrent liabilities**	**41,906**	**41,906**	**-**	**3,371**	**22,837**	**15,698**

**excluding specific taxes and other taxes payable, deferred income and others*
***excluding cash bonds, cylinder deposits, derivative liabilities, and others*

2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Year - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P27,153,625	P27,153,625	P27,153,625	P -	P -	P -
Trade and other receivables	30,311,296	30,311,296	30,311,296	-	-	-
Advances to a subsidiary	1,159,707	1,159,707	-	1,159,707	-	-
Derivative assets (including non-current portion)	596,899	596,899	563,648	18,893	14,358	-
Proprietary membership shares	297,863	297,863	297,863	-	-	-
Financial Liabilities						
Short-term loans	92,207,500	94,453,974	94,453,974	-	-	-
Liabilities for crude oil and petroleum products	21,566,465	21,566,465	21,566,465	-	-	-
Trade and other payables*	5,274,207	5,274,207	5,274,207	-	-	-
Derivative liabilities (including non-current portion)	601,393	601,393	574,993	23,060	3,340	-
Long-term debt (including current maturities)	102,645,752	114,995,182	26,448,473	34,869,847	44,371,120	9,305,742
Lease liabilities (including current portion)	15,792,135	26,022,121	2,208,888	2,139,290	5,682,222	15,991,721
Cash bonds	448,841	449,117	-	433,098	15,850	169
Cylinder deposits	298,285	298,285	-	-	-	298,285
Other noncurrent liabilities**	37,715	37,715	-	3,816	17,380	16,519

**excluding specific taxes and other taxes payable, deferred income and others*
***excluding cash bonds, cylinder deposits, derivative liabilities, and others*

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Company enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Company, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses, however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains, however, any gain in the marked-to-market position is offset by the resulting lower selling price.

To minimize the Company's risk of potential losses due to volatility of international crude and product prices, the Company implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the CRMD is in place. Decisions are guided by the conditions set and approved by the Company's management.

Other Market Price Risk
The Company's market price risk arises from its investments carried at FVPL. The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management
The Company's capital management policies and programs aim to provide an optimal capital structure that would ensure the Company's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds.

An enterprise resource planning system is used to monitor and forecast the Company's overall financial position. The Company regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Company may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Company monitors capital via carrying amount of equity as shown in the separate statements of financial position. The Company's capital for the covered reporting period is summarized below:

	2022	2021
Total assets	**P383,372,015**	P344,327,481
Total liabilities	**293,177,343**	250,648,497
Total equity	**90,194,672**	93,678,984
Debt to equity ratio	**3.25:1**	2.68:1
Asset to equity ratio	**4.25:1**	3.68:1

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally-imposed capital requirements.

34. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Company's financial instruments as of December 31:

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*5*	**P26,989,260**	**P26,989,260**	P27,153,625	P27,153,625
Trade and other receivables	*7*	**53,092,113**	**53,092,113**	30,311,296	30,311,296
Advances to a subsidiary	*9*	**1,078,037**	**1,078,037**	1,159,707	1,159,707
FA at amortized cost		**81,159,410**	**81,159,410**	58,624,628	58,624,628
FA at FVOCI	*6, 13*	**180,638**	**180,638**	52,990	52,990
Proprietary membership shares	*6*	**352,123**	**352,123**	297,863	297,863
Derivative assets not designated as cash flow hedge	*6*	**931,079**	**931,079**	543,909	543,909
FA at FVPL		**1,283,202**	**1,283,202**	841,772	841,772
Total financial assets		**P82,623,250**	**P82,623,250**	P59,519,390	P59,519,390

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	*14*	**P122,355,000**	**P122,355,000**	P94,207,500	P94,207,500
Liabilities for crude oil and petroleum products	*15*	**23,438,723**	**23,438,723**	21,566,465	21,566,465
Trade and other payables*	*16*	**10,828,316**	**10,828,316**	5,274,207	5,274,207
Long-term debt including current portion	*17*	**107,061,026**	**107,061,026**	102,645,752	102,645,752
Derivative liabilities designated as cash flow hedge	*19*	**-**	**-**	116,239	116,239
Cash bonds	*19*	**419,116**	**419,116**	448,841	448,841
Cylinder deposits	*19*	**291,401**	**291,401**	298,285	298,285
Other noncurrent liabilities**	*19*	**41,906**	**41,906**	37,715	37,715
Other FL		**264,435,488**	**264,435,488**	224,595,004	224,595,004
Derivative liabilities not designated as cash flow hedge		**323,455**	**323,455**	485,154	485,154
Total financial liabilities		**P264,758,943**	**P264,758,943**	P225,080,158	225,080,158

**excluding specific taxes and other taxes payable, deferred income and others*
***excluding cash bonds, cylinder deposits, derivative liabilities, and others*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Advances to a Subsidiary. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of the advances to a subsidiary, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties. The fair values of derivative instruments designated as cash flow hedges are computed by discounting the future cash flows and using the valuation model based on applicable market rates of similar instruments.

Financial Assets at FVPL. The fair values of publicly traded instruments and similar investments are based on published market prices.

Long-term Debt - Floating Rate. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair value.

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2022 and 2021 are 7.72% and 7.54% respectively.

Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables. The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value due to the relatively short-term maturities of these financial instruments.

Derivative Financial Instruments

The Company's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Company enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Cash Flow Hedges

The Company designated the following derivative financial instruments as cash flow hedges (Note 33):

	Maturity			
December 31, 2022	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign Currency and Interest Rate Risk				
Cross currency swap:				
Notional amount	**US$20,000**	**US$10,000**	**US$ -**	**US$30,000**
Average strike rate	**P47.00 to P56.50**	**P47.00 to P56.50**	**P -**	**P -**
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**-**	**-**
Interest Rate Risk				
Interest rate collar:				
Notional amount	**US$30,000**	**US$15,000**	**US$ -**	**US$45,000**
Interest rate	**0.44% to 1.99%**	**0.44% to 1.99%**	**-**	**-**

	Maturity			
December 31, 2021	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign Currency Risk				
Call spread swaps:				
Notional amount	US$40,000	US$ -	US$ -	US$40,000
Average strike rate	P51.96 to P54.47	P -	P -	P -
Foreign Currency and Interest Rate Risk				
Cross currency swap:				
Notional amount	US$20,000	US$20,000	US$10,000	US$50,000
Average strike rate	P47.00 to P57.00	P47.00 to P56.50	P47.00 to P56.50	P -
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	-
Interest Rate Risk				
Interest rate collar:				
Notional amount	US$15,000	US$30,000	US$15,000	US$60,000
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	-

The table below summarizes the amounts pertaining to the designated hedged item.

December 31, 2022	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	**(P117,516)**	**P20,739**	**(P17,089)**
Interest Rate Risks			
US dollar-denominated loan	**(63,122)**	**47,341**	**-**

December 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign Currency Risk			
US dollar-denominated loan	(P7,540)	P -	P5,655
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	66,970	(71,612)	65,146
Interest Rate Risks			
US dollar-denominated loan	3,819	(2,865)	-

There are no balances remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The table below summarizes the amounts pertaining to the designated hedging instrument as of December 31, 2022 and 2021.

December 31, 2022	Notional Amount	Carrying Amount		Line Item in the Separate Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Separate Statements of Comprehensive Income Affected by the Reclassification
		Assets	Liabilities						
Foreign Currency Risk									
Call spread swaps	**US$ -**	**P -**	**P -**	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	**P -**	**(P20,024)**	**P -**	**P12,484**	**Other income (expenses) - net**
Foreign Currency and Interest Rate Risks									
Cross currency swap	**30,000**	**117,516**	**-**	Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	**117,516**	**(160,990)**	**(171,000)**	**51,344**	**Interest Expense and other financing charges, and Other income (expenses) - net**
Interest Rate Risk									
Interest rate collar	**45,000**	**63,122**	**-**	Other noncurrent assets and Derivative liabilities	**63,122**	**17,021**	**-**	**(17,021)**	**Interest Expense and other financing charges**

December 31, 2021	Notional Amount	Carrying Amount Assets	Carrying Amount Liabilities	Line Item in the Separate Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Separate Statements of Comprehensive Income Affected by the Reclassification
Foreign Currency Risk									
Call spread swaps	US$40,000	P19,739	P12,199	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	P7,540	P4,205	(P27,678)	P60,919	Other income (expenses) - net
Foreign Currency and Interest Rate Risks									
Cross currency swap	50,000	31,734	98,704	Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(66,970)	(215,779)	(276,410)	167,789	Interest Expense and other financing charges, and Other income (expenses) - net
Interest Rate Risk									
Interest rate collar	60,000	1,517	5,336	Other noncurrent assets and Derivative liabilities	(3,819)	(15,840)	-	15,840	Interest Expense and other financing charges

No ineffectiveness was recognized in the 2022 and 2021 separate statements of comprehensive income.

The table below provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	December 31, 2022		December 31, 2021	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	**(P74,476)**	**P70,801**	(P206,729)	P54,087
Changes in fair value:				
Foreign currency risk	**-**	**(20,024)**	27,678	4,205
Foreign currency risk and interest rate risk	**294,132**	**(160,990)**	448,228	(215,779)
Interest Rate Risk	**66,941**	**17,021**	24,208	(15,840)
Amount reclassified to profit or loss:				
Foreign currency risk	**-**	**12,484**	(27,678)	60,919
Foreign currency risk and interest rate risk	**(171,000)**	**51,344**	(276,410)	167,789
Interest rate risk	**-**	**(17,021)**	-	15,840
Income tax effect	**(47,518)**	**29,296**	(63,773)	(420)
Balance at end of year	**P68,079**	**(P17,089)**	(P74,476)	P70,801

Derivative Instruments not Designated as Hedges

The Company enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the separate statements of comprehensive income. Details are as follows:

Cross Currency Swaps

As of December 31, 2022, the Company has no outstanding cross currency swaps. As of December 31, 2022 and 2021, the net negative fair value of these cross currency swaps amounted to nil and P6,209, respectively.

Interest Rate Collar

As of December 31, 2022, the Company has no outstanding interest rate collar. As of December 31, 2022 and 2021, the net negative fair value of this interest rate collar amounted to nil and P878, respectively.

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency hedges entered into by the Company.

Currency Forwards. As of December 31, 2022 and 2021, the Company has outstanding foreign currency forward contracts with aggregate notional amount of US$696 million and US$495 million, respectively, and with various maturities in 2022 and 2021. As of December 31, 2022 and 2021, the net fair value of these currency forwards amounted to P14,057 and P383,544 respectively.

Commodity Swaps. The Company has outstanding swap agreements covering its oil requirements, with various maturities in 2022 and 2021. Under the agreements, payment is made either by the Company or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. Total outstanding equivalent notional quantity covered by the commodity swaps were 18,666 thousand barrels and 17,402 thousand barrels for 2022 and 2021, respectively. The estimated net receipts/ (payouts) for these transactions amounted to P593,580 and (P317,689) as of December 31, 2022 and 2021, respectively.

Commodity Options. As of December 31, 2022 and 2021, the Company has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

Embedded Derivatives
Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of Petron. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2022 and 2021, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts is minimal. These nonfinancial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2022 and 2021, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2022 and 2021, the Company recognized marked-to-market losses from freestanding and embedded derivatives amounting to P3,894,533 and P361,003, respectively (Note 25).

Fair Value Changes on Derivatives not Designated as Cash Flow Hedge
The net movements in the fair value of derivative transactions in 2022 and 2021 are as follows:

	Note	**2022**	2021
Fair value at beginning of year		**P58,755**	(P413,704)
Net changes in fair value during the year	*25*	**3,894,533**	361,003
Fair value of settled instruments		**(3,345,664)**	111,456
Fair value at end of year		**P607,624**	P58,755

Fair Value Hierarchy
Financial assets and liabilities measured at fair value in the separate statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2022 and 2021. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

	2022	2021
	Level 2	Level 2
Financial Assets:		
FVPL	**P352,123**	P297,863
Derivative assets	**1,111,717**	596,899
Financial Liabilities:		
Derivative liabilities	**(323,455)**	(601,393)

The Company has no financial instruments valued based on Level 1 and 3 as of December 31, 2022 and 2021. During the year, there were no transfers into and out of Level 2 fair value measurements.

35. The Authority of the Freeport Area of Bataan (AFAB)

In December 2021, the Petron Bataan Refinery renewed its registration with the AFAB as a registered enterprise. The registration shall be valid and in effect as long as the registered enterprise remains in good standing or until revoked or cancelled. FAB-registered enterprises are entitled to avail of fiscal incentives under the Special Economic Zone Act of 1995 or the Omnibus Investment Code of 1987 such as (i) tax and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases, subject to compliance with Bureau of Internal Revenue and AFAB requirements. Further, VAT will only be imposed on the Company as a FAB Registered Enterprise upon the withdrawal of products from the refinery instead of the VAT being payable upon importation of crude oil.

36. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Company's major sources of revenues are as follows:

a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

b. Lease of equipment for gasoline service stations and other related structures.

c. Sales on wholesale or retail operation of service stations, retail outlets, restaurants, convenience stores and the like.

d. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Singapore, Indonesia, Malaysia, South Korea, Vietnam, and India.

e. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

f. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations. The general payment terms with customers are combination of prepayments and credit terms from a period of 30 to 60 days from invoice date.

The Company has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Major Customer

The Company does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Company.

The following table presents information on the business segment of the Company as of and for the years ended December 31, 2022 and 2021:

	Retail	Lubes	Gasul	Industrial	Others	Total
2022						
Revenue	**P152,947,336**	**P5,252,178**	**P24,191,132**	**P127,330,337**	**P121,012,736**	**P430,733,719**
Property, plant and equipment	**2,207,338**	**25,376**	**27,101**	**21,510**	**141,865,887**	**144,147,212**
Capital expenditures	**848,699**	**4,393**	**(1,626)**	**96**	**11,881,225**	**12,732,787**
2021						
Revenue	P99,001,372	P4,442,562	P18,222,143	P56,027,415	P59,374,332	P237,067,824
Property, plant and equipment	2,138,862	30,858	80,303	8,569	144,074,252	146,332,844
Capital expenditures	993,993	3,996	21,628	953	13,700,588	14,721,158

a. revenues from the use of loaned equipment are presented as part of "Retail", "Gasul" and "Industrial"
b. revenues from provisions of technical support are presented as part of "Retail" and "Industrial"
c. revenues from consumer loyalty program are presented as part of "Others"

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Company for the years ended December 31, 2022 and 2021:

	2022	2021
Local	**P412,845,291**	P223,244,922
Export/international	**17,888,428**	13,822,902
Total	**P430,733,719**	P237,067,824

Disaggregation of Revenue

The following tables shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Company's business segments for the years ended December 31, 2022 and 2021:

	Retail	Lubes	Gasul	Industrial	Others	Total
2022						
Local	**P152,947,336**	**P4,924,053**	**P24,107,975**	**P127,330,337**	**P103,535,590**	**P412,845,291**
Export/international	**-**	**328,125**	**83,157**	**-**	**17,477,146**	**17,888,428**
2021						
Local	P99,001,372	P4,225,342	P18,222,143	P56,027,415	P45,768,650	P223,244,922
Export/international	-	217,221	-	-	13,605,681	13,822,902

a. revenues from the use of loaned equipment are presented as part of "Retail", "Gasul" and "Industrial"
b. revenues from provisions of technical support are presented as part of "Retail" and "Industrial"
c. revenues from consumer loyalty program are presented as part of "Others"

37. Events After the Reporting Date

a. Distributions

On January 18, 2023, the Company paid distributions amounting to US$11.50 million (P840,727) to the holders of the US$500 million SPCS.

On February 10, 2023, the Company paid distributions amounting to US$906.25 thousand (P49,430) to the holders of the US$100 million RPS.

On February 27, 2023, the Company paid distributions amounting to US$60 thousand (P3,319) to the holders of the US$6 million RPS.

b. Partial Redemption of US$500 million of SPCS

On January 19, 2023, the Company redeemed US$22.47 million from the US$500 million SPCS at a purchase price of US$927 per US$1,000 in principal amount.

c. Loan Drawdowns

On January 20, 2023, the Company drew US$30 million from the US$550 million term loan facility to partially prepay its JP¥15 billion term loan facility. Additional US$25 million was drawn on February 3, 2023 to partially prepay the US$800 million loan term loan facility. The additional drawdowns are amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning November 8, 2024. These are subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

c. On March 6, 2023, the BOD of the Company approved the following:

i. Public offer and issuance of up to P50,000,000 preferred shares with features to be determined by the Management.

ii. Declaration of P0.10/share cash dividends to common stockholders to be paid on April 4, 2023.

38. Other Matters

a. Lease Agreements with PNOC

On October 20, 2017, the Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Company.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Company of the conveyed lots for its business operation. Thus, PNOC and the Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted the Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Company from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2020, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2020. The Company also filed a motion for summary judgment on May 17, 2020.

In a resolution dated November 13, 2020, the trial court granted the Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Company of all such properties, and (iii) the payment by the Company to PNOC of the amount of P143,000, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Company all lease payments the latter had paid to PNOC since 1993.

Following the trial court's denial of their separate motions for reconsideration, both PNOC and Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving the Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed the Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. In a resolution promulgated on October 6, 2022, the Court of Appeals denied the respective motions for reconsideration of Petron and PNOC. In consideration of the possible delay in the final resolution of the case if Petron were to proceed with the filing of a petition for review with the Supreme Court on the issue of rental payments it seeks to recover and the decision in favor of Petron on the rescission of the Deeds of Conveyance and the reconveyance to it of the properties that has been affirmed by the Court of Appeals, Petron has decided to no longer pursue a petition for review with the Supreme Court. The PNOC filed a petition for review on certiorari with the Supreme Court in early December 2022. As of December 31, 2022, Petron is awaiting orders from the Supreme Court.

b. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the Regional Trial Court of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292,000. The cases were pending as of December 31, 2021. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City (CA). On January 9, 2020, the CA issued a Resolution granting plaintiffs' motion for reconsideration of the earlier resolution denying their petition and ordering the Company to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, the Company filed a motion for reconsideration of said Resolution, which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far. As of December 31, 2022 and 2021, the Company has not set up any provision related to this case, consistent with Company's position, as also advised by its counsels, that the Company is not liable for the damages resulting from the oil spill incident because it was only the charterer of the sunken vessel and that it had no control or supervision over the operation of said vessel. Moreover, the environmental damage had already been paid and settled by the International Oil Pollution Compensation Funds (IOPC) where Company makes contribution as a member.

c. Effect of COVID-19 and Impact of Russia - Ukraine Conflict

When the global pandemic started, the Company, being engaged in the fuel business, was affected by the implementation of Enhanced Community Quarantine (ECQ) in the National Capital Region and other key cities in the Philippines. The reduced economic activities and travel restrictions due to lockdowns in many countries significantly affected volumes of the Philippine operations.

Globally, oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand disruption caused by the COVID-19 pandemic. Dubai crude plunged from US$64/bbl in January to US$20/bbl in April, posting record low levels in 26 years, which resulted in successive rollbacks in pump prices resulting to substantial net loss of the Company in 2020.

With the Organization of Petroleum Exporting Countries (OPEC) and Russia agreeing to output cuts, recovery in oil prices was seen starting May 2020. From then on international oil prices began to climb steadily. Dubai averaged to about $71/bbl in 2021 as against $42/bbl in 2020.

The gradual opening-up of economies and easing up of pandemic restrictions especially in the West alongside robust vaccination efforts around the world contributed to the recovery of demand reaching pre-pandemic level by the 4th quarter of 2021. On the supply-side, consistent effort of oil producing countries to manage supply also supported the escalation in oil prices amidst several resurgences in COVID-19 cases from new variants.

While the world is already phasing out COVID-19 prevention measures approaching endemic phase in 2022, China continues to impose Zero-Tolerance policy against COVID. China, including its economic centers Beijing and Shanghai, underwent stringent lockdowns to curb the spread of the virus affecting the country's economy which remains under pressure. This caused China's oil demand dropping in 2022 tempering oil prices towards the end of year.

In February 2022, the invasion of Ukraine by Russia resulted to sudden escalation in oil prices with Dubai crude breaching the $100/bbl mark by March 2022 due to the disruption of global oil supply. Amid economic sanctions imposed on Russia and OPEC's efforts to manage production, demand continued to be healthy as most of the countries are already recovering from the pandemic and approaching endemic phase. By June 2022 oil prices soared to a record high $113/bbl. However, by mid of the third quarter, prices began to correct with Dubai averaging $97/bbl in the 3rd quarter and further went down to $85/bbl in the 4th quarter of 2022.

The Company's sales volume for 2022 grew substantially by 27% compared to last year's level. Total revenues almost doubled the 2021 level to P430,733,719. Despite volatility in the market and elevated costs, the robust refining margins allowed the Company to realize net income of P2,536,160, almost the same as last year's net income level.

The extent to which the COVID-19 and Russia-Ukraine war will continue to impact the Company will depend on future developments, including actions taken by OPEC and other oil producing countries and the international community and by the Philippines and internationally by governments, which are highly uncertain and cannot be quantified nor determined at this point.

d. Other Proceedings

   The Company is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Company's business, financial condition or results of operations.

e. The Company has unused letters of credit totaling approximately P25,671,094 and P31,660,367 as of December 31, 2022 and 2021, respectively.

39. Supplementary Information Required by the BIR

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the separate financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307 Metro Manila Philippines
Tel: (632) 818-0921 Fax: (632) 818-5293 Email: mis@sec.gov.ph

The following document has been received:

Receiving: Jojit Licudine
Receipt Date and Time: March 16, 2023 08:19:21 PM

Company Information

SEC Registration No.: 0000031171
Company Name: Petron Corporation
Industry Classification: E40200
Company Type: Stock Corporation

Document Information

Document ID: OST1031620238964521
Document Type: Financial Statement
Document Code: FS
Period Covered: December 31, 2022
Submission Type: Consolidated
Remarks: None

Acceptance of this document is subject to review of forms and contents

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						3	1	1	7	1

COMPANY NAME

PETRON CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 2010, 2014 and 2019

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
contactus@petron.com	8-884-9200	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
144,388 (as of December 31, 2022)	May 16, 2023	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
MYRNA C. GERONIMO	mcgeronimo@petron.com	8-884-9200 loc 49189	

CONTACT PERSON's ADDRESS

SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

Note 1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

PETRON

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation and Its Subsidiaries** (collectively referred to as the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2022 and 2021**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors (the "Board") is responsible for overseeing the Group's financial reporting process.

The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

RAMON S. ANG
President, Chief Executive Officer and Acting Chairman

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 6th day of March 2023

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 0 6 2023, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Ramon S. Ang		
Emmanuel E. Eraña		

Doc. No. 70;
Page No. 15;
Book No. II;
Series of 2023

MARIA CRISSELDA T. TORCUATOR
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-23
Until December 31, 2024
Attorney's Roll No. 71094
PTR No. 5113009/01-03-2023/Mandaluyong
IBP No. 268623/01-04-2023/RSM
MCLE Compliance No. VII-0021478/06-17-2022

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022, 2021 and 2020

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Opinion

We have audited the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and of its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition (P857,638 million)
Refer to Note 3, *Significant Accounting Policies* and Note 38, *Segment Information* to the consolidated financial statements.

The risk
Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed and control over the goods and services has been transferred to the customer. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and the sales target which form part of the Group's key performance measure may provide venue to improperly recognize revenue.

Our response
We performed the following audit procedures, among others, on revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition. We involved our information technology specialists, as applicable, to assist in the audit of automated controls and the design and operating effectiveness of controls over the recording of revenue transactions.

- We checked on a sampling basis, the sales transactions to the delivery documents for the year.

- We checked sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.

- We tested journal entries posted to revenue accounts, including any unusual or irregular items.

- We tested credit notes recorded after the financial year to identify potential reversals of revenue which were inappropriately recognized in the current financial year.

Valuation of Inventories (P85,347 million)
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

The risk
There is a risk over the recoverability of the Group's inventories due to market price volatility of crude and petroleum products. Such volatility can lead to potential issues over the full recoverability of inventory balances. In addition, determining the net realizable values of inventories is subject to management's judgment and estimation. This includes estimating the selling price of finished goods and the cost of conversion of raw materials based on available market price forecasts and current costs.

Our response
We performed the following audit procedures, among others, on the valuation of inventories:

- We obtained and reviewed the calculation of write-down of the Group's raw materials and finished goods based on the net realizable values of finished goods at yearend.

- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated costs of finished goods to the net realizable values to determine any potential write-down.

- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference between the net realizable value and the cost of inventory held at yearend.

Valuation of Goodwill (P8,509 million)
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of Judgments, Estimates and Assumptions* and Note 13, *Business Combination, Investment in Shares of Stock of Subsidiaries, Goodwill and Non-Controlling Interests* to the consolidated financial statements.

The risk
The Group has significant amount of goodwill arising from business acquisitions. We particularly focused on the valuation of goodwill allocated to Petron Oil and Gas International Sdn. Bhd. Group (Petron Malaysia Group) which accounts for 99% of total goodwill. The annual impairment test was significant to our audit as the assessment process is complex by nature and is based on management's judgment and assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates and discount rates.

Our response
We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity of the discounted cash flow model used by the Group. This involved the review of component auditor's work and use of their own valuation specialist to assist in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.

- We compared the Group's assumptions to externally derived data, where applicable, as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.

- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and determine whether the other information needs to be revised.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

▪ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Rohanie C. Galicia.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Million Pesos)

		December 31	
	Note	**2022**	2021
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 35, 36*	**P37,183**	P36,406
Financial assets at fair value	*6, 15, 35, 36*	**1,753**	1,005
Trade and other receivables - net	*4, 8, 29, 35, 36*	**81,979**	51,745
Inventories - net	*4, 9*	**85,347**	67,684
Other current assets	*15, 29*	**37,025**	31,195
Total Current Assets		**243,287**	188,035
Noncurrent Assets			
Investment in shares of stock of an associate	*2, 14*	**1,075**	1,012
Property, plant and equipment - net	*4, 10, 12, 38*	**170,153**	171,602
Right-of-use assets - net	*4, 11*	**5,398**	5,648
Investment property - net	*4, 10, 12*	**28,437**	29,175
Deferred tax assets - net	*4, 28*	**1,812**	2,172
Goodwill - net	*4, 13*	**8,509**	8,235
Other noncurrent assets - net	*4, 6, 15, 35, 36*	**1,400**	1,541
Total Noncurrent Assets		**216,784**	219,385
		P460,071	P407,420
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*16, 34, 35, 36*	**P137,886**	P109,196
Liabilities for crude oil and petroleum products	*17, 29, 32, 35, 36*	**51,067**	42,641
Trade and other payables	*18, 29, 31, 34, 35, 36, 40*	**22,896**	14,001
Lease liabilities - current portion	*4, 32, 34, 35*	**1,380**	1,335
Derivative liabilities	*35, 36*	**723**	997
Income tax payable		**204**	302
Current portion of long-term debt - net	*19, 34, 35, 36*	**13,399**	21,580
Total Current Liabilities		**227,555**	190,052
Noncurrent Liabilities			
Long-term debt - net of current portion	*19, 34, 35, 36*	**93,662**	81,065
Retirement benefits liability - net	*31*	**3,261**	3,327
Deferred tax liabilities - net	*28*	**3,601**	3,784
Lease liabilities - net of current portion	*4, 32, 34, 35*	**13,714**	14,220
Asset retirement obligation	*4, 20*	**3,527**	2,857
Other noncurrent liabilities	*21, 35, 36*	**1,201**	1,202
Total Noncurrent Liabilities		**118,966**	106,455
Total Liabilities		**346,521**	296,507

Forward

	Note	December 31 2022	2021
Equity Attributable to Equity Holders of the Parent Company	*22*		
Capital stock		**P9,485**	P9,485
Additional paid-in capital		**37,500**	37,500
Capital securities		**62,712**	62,712
Retained earnings		**30,357**	30,232
Equity reserves		**(16,887)**	(18,341)
Treasury stock		**(18,000)**	(18,000)
Total Equity Attributable to Equity Holders of the Parent Company		**105,167**	103,588
Non-controlling Interests	*13*	**8,383**	7,325
Total Equity		**113,550**	110,913
		P460,071	P407,420

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos, Except Per Share Data)

	Note	2022	2021	2020
SALES	*29, 32, 38*	**P857,638**	P438,057	P286,033
COST OF GOODS SOLD	*23*	**823,788**	407,558	277,320
GROSS PROFIT		**33,850**	30,499	8,713
SELLING AND ADMINISTRATIVE EXPENSES	*24*	**(16,175)**	(14,557)	(14,389)
OTHER OPERATING INCOME	*4, 30*	**1,538**	1,273	1,047
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*27, 38*	**(13,094)**	(10,008)	(11,313)
INTEREST INCOME	*27, 38*	**898**	564	780
SHARE IN NET INCOME OF AN ASSOCIATE	*14*	**63**	8	-
OTHER INCOME (EXPENSE) - Net	*27*	**1,021**	(482)	(1,049)
		(25,749)	(23,202)	(24,924)
INCOME (LOSS) BEFORE INCOME TAX		**8,101**	7,297	(16,211)
INCOME TAX EXPENSE (BENEFIT)	*28, 37, 38*	**1,404**	1,161	(4,798)
NET INCOME (LOSS)		**P6,697**	P6,136	(P11,413)
Attributable to:				
Equity holders of the Parent Company	*33*	**P5,727**	P5,369	(P11,380)
Non-controlling interests	*13*	**970**	767	(33)
		P6,697	P6,136	(P11,413)
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*33*	**P0.01**	P0.05	(P1.58)

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos)

	Note	**2022**	2021	2020
NET INCOME (LOSS)		**P6,697**	P6,136	(P11,413)
OTHER COMPREHENSIVE LOSS				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*31*	**(626)**	(597)	(631)
Income tax benefit (expense)	*28*	**156**	(213)	191
		(470)	(810)	(440)
Items that may be reclassified to profit or loss				
Income on cash flow hedges	*36*	**73**	202	100
Exchange differences on translation of foreign operations		**2,137**	880	(1,330)
Unrealized fair value gains on investments in debt instruments at fair value through other comprehensive income	*7*	**-**	-	1
Share in other comprehensive income of a joint venture		**-**	-	10
Income tax expense	28	**(19)**	(65)	(30)
		2,191	1,017	(1,249)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**1,721**	207	(1,689)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		**P8,418**	P6,343	(P13,102)
Attributable to:				
Equity holders of the Parent Company		**P7,181**	P5,399	(P12,852)
Non-controlling interests	*13*	**1,237**	944	(250)
		P8,418	P6,343	(P13,102)

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos)

		Equity Attributable to Equity Holders of the Parent Company											
					Retained Earnings		Equity Reserves						
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2021		**P9,485**	**P37,500**	**P62,712**	**P7,003**	**P23,229**	**(P5,962)**	**(P12,379)**	**(P18,000)**	**P103,588**	**P7,325**	**P110,913**
Net income on cash flow hedges - net of tax	*36*	**-**	**-**	**-**	**-**	**-**	**-**	**54**	**-**	**54**	**-**	**54**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**1,875**	**-**	**1,875**	**262**	**2,137**
Equity reserve for retirement plan - net of tax		**-**	**-**	**-**	**-**	**-**	**(475)**	**-**	**-**	**(475)**	**5**	**(470)**
Other comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**(475)**	**1,929**	**-**	**1,454**	**267**	**1,721**
Net income for the year		**-**	**-**	**-**	**-**	**5,727**	**-**	**-**	**-**	**5,727**	**970**	**6,697**
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**5,727**	**(475)**	**1,929**	**-**	**7,181**	**1,237**	**8,418**
Cash dividends	*22*	**-**	**-**	**-**	**-**	**(1,044)**	**-**	**-**	**-**	**(1,044)**	**(179)**	**(1,223)**
Distributions paid	*22*	**-**	**-**	**-**	**-**	**(4,545)**	**-**	**-**	**-**	**(4,545)**	**-**	**(4,545)**
Share issuance cost of a subsidiary		**-**	**-**	**-**	**-**	**(13)**	**-**	**-**	**-**	**(13)**	**-**	**(13)**
Transactions with owners		**-**	**-**	**-**	**-**	**(5,602)**	**-**	**-**	**-**	**(5,602)**	**(179)**	**(5,781)**
As of December 31, 2022		**P9,485**	**P37,500**	**P62,712**	**P7,003**	**P23,354**	**(P6,437)**	**(P10,450)**	**(P18,000)**	**P105,167**	**P8,383**	**P113,550**

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2020		P9,485	P37,500	P36,481	P15,000	P14,799	(P5,148)	(P13,223)	(P15,122)	P79,772	P6,423	P86,195
Net income on cash flow hedges - net of tax	*36*	-	-	-	-	-	-	137	-	137	-	137
Exchange differences on translation of foreign operations		-	-	-	-	-	-	707	-	707	173	880
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(814)	-	-	(814)	4	(810)
Other comprehensive income (loss)		-	-	-	-	-	(814)	844	-	30	177	207
Net income for the year		-	-	-	-	5,369	-	-	-	5,369	767	6,136
Total comprehensive income (loss) for the year		-	-	-	-	5,369	(814)	844	-	5,399	944	6,343
Cash dividends	*22*	-	-	-	-	(1,899)	-	-	-	(1,899)	(42)	(1,941)
Distributions paid	*22*	-	-	-	-	(3,037)	-	-	-	(3,037)	-	(3,037)
Issuance of capital securities	*22*	-	-	26,231	-	-	-	-	-	26,231	-	26,231
Redemption of preferred shares	*22*	-	-	-	-	-	-	-	(2,878)	(2,878)	-	(2,878)
Appropriation of retained earnings	*22*	-	-	-	3	(3)	-	-	-	-	-	-
Reversal of appropriation	*22*	-	-	-	(8,000)	8,000	-	-	-	-	-	-
Transactions with owners		-	-	26,231	(7,997)	3,061	-	-	(2,878)	18,417	(42)	18,375
As of December 31, 2021		P9,485	P37,500	P62,712	P7,003	P23,229	(P5,962)	(P12,379)	(P18,000)	P103,588	P7,325	P110,913

Forward

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2019		P9,485	P37,500	P25,183	P15,000	P30,510	(P4,704)	(P12,195)	(P15,122)	P85,657	P6,773	P92,430
Net income on cash flow hedges - net of tax	*36*	-	-	-	-	-	-	70	-	70	-	70
Unrealized fair value losses on investments in debt instruments		-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,109)	-	(1,109)	(221)	(1,330)
Share in other comprehensive income of a joint venture		-	-	-	-	-	-	10	-	10	-	10
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(444)	-	-	(444)	4	(440)
Other comprehensive loss		-	-	-	-	-	(444)	(1,028)	-	(1,472)	(217)	(1,689)
Net loss for the year		-	-	-	-	(11,380)	-	-	-	(11,380)	(33)	(11,413)
Total comprehensive loss for the year		-	-	-	-	(11,380)	(444)	(1,028)	-	(12,852)	(250)	(13,102)
Cash dividends	*22*	-	-	-	-	(2,515)	-	-	-	(2,515)	(100)	(2,615)
Distributions paid	*22*	-	-	-	-	(1,816)	-	-	-	(1,816)	-	(1,816)
Issuance of capital securities	*22*	-	-	11,298	-	-	-	-	-	11,298	-	11,298
Transactions with owners		-	-	11,298	-	(4,331)	-	-	-	6,967	(100)	6,867
As of December 31, 2020		P9,485	P37,500	P36,481	P15,000	P14,799	(P5,148)	(P13,223)	(P15,122)	P79,772	P6,423	P86,195

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos)

	Note	**2022**	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**P8,101**	P7,297	(P16,211)
Adjustments for:				
Interest expense and other financing charges	*27, 38*	**13,094**	10,008	11,313
Depreciation and amortization	*26, 38*	**11,876**	9,848	9,490
Unrealized foreign exchange losses (gains) - net		**670**	2,811	(2,308)
Retirement benefits costs	*31*	**367**	289	289
Share in net income of an associate	*14*	**(63)**	(8)	-
Interest income	*27*	**(898)**	(564)	(780)
Other losses - net		**(1,201)**	(1,228)	(994)
Operating income before working capital changes		**31,946**	28,453	799
Changes in noncash assets, certain current liabilities and others	*34*	**(38,308)**	(29,322)	12,031
Changes in noncash assets and liabilities of new subsidiary	*13*	**(3,165)**	-	-
Cash generated from (used in) operations		**(9,527)**	(869)	12,830
Contribution to retirement fund	*31*	**(900)**	(810)	(315)
Interest paid		**(12,086)**	(9,274)	(10,758)
Income taxes paid		**(1,001)**	(365)	(110)
Interest received		**840**	650	886
Net cash flows provided by (used in) operating activities		**(22,674)**	(10,668)	2,533
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	*10*	**(5,397)**	(9,195)	(8,167)
Proceeds from sale of property and equipment		**9**	131	144
Acquisition of investment property	*12*	**(286)**	(695)	(591)
Proceeds from sale of investment property		**12**	-	-
Increase in other noncurrent assets		**(22)**	-	(43)
Proceeds from disposal of:				
Investment in subsidiary - net	*13*	**-**	-	181
Investments in debt instruments		**-**	-	39
Net cash from consolidation of a new subsidiary	*13*	**3,302**	-	-
Net cash flows used in investing activities		**(2,382)**	(9,759)	(8,437)

Forward

	Note	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans, bonds and advances	*29, 34*	**P373,935**	P227,057	P151,408
Payments of:				
Loans and bonds	*34*	**(342,654)**	(215,431)	(155,604)
Lease liabilities	*30, 34*	**(2,347)**	(2,226)	(2,361)
Cash dividends and distributions	*22, 34*	**(6,127)**	(4,655)	(4,423)
Redemption of preferred shares	*22*	**-**	(2,878)	-
Issuance of capital securities	*22*	**-**	26,231	11,298
Net cash flows provided by financing activities		**22,807**	28,098	318
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**3,026**	1,682	(1,579)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**777**	9,353	(7,165)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**36,406**	27,053	34,218
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P37,183**	P36,406	P27,053

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company’s corporate term to December 22, 2066. Under its Articles of Incorporation (AOI), the Parent Company’s has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Pursuant to the Revised Corporation Code of the Philippines, which took effect in February 2019, the Parent Company shall have a perpetual existence because the Parent Company did not elect to retain its specific corporate term under its AOI.

Petron is the only oil refining and the leading marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates the modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron’s refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals and facilities strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With around 1,900 service stations and hundreds of industrial accounts, Petron remains the leader in the Philippine fuel market. Petron retails gasoline and diesel to motorists and public transport operators. Petron also sells its LPG brands “Gasul” and “Fiesta” to households and other industrial consumers through an extensive dealership network. In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives Petron the capability to formulate unique additives suitable for the driving conditions in the Philippines. Petron also has a facility in Mariveles, Bataan where the refinery’s propylene production is converted into higher-value polypropylene resin.

Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 10 product terminals and facilities, and a network of more than 750 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code (SRC) and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2022, the Parent Company's public float stood at 26.72%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investment Holdings, Inc. Both companies are incorporated in the Philippines.

The registered office address of Petron is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial and Sustainability Reporting Standards Council (FSRSC).

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 6, 2023.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting except for the following which are measured on an alternative basis at each reporting date:

Items	Measurement Bases
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Investments in debt instruments at fair value through other comprehensive income (FVOCI)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information presented in Philippine peso is rounded off to the nearest million (P000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership 2022	2021	Country of Incorporation
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	**100.00**	100.00	Bermuda
Petron Freeport Corporation (PFC)	**100.00**	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	**100.00**	100.00	Singapore
Petron Marketing Corporation (PMC)	**100.00**	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	**85.55**	85.55	Philippines
Petron Global Limited (PGL)	**100.00**	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	**100.00**	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	**100.00**	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	**100.00**	100.00	Hong Kong
Mema Holdings, Inc. (Mema) and Subsidiaries	**100.00**	-	Philippines

Ovincor is engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities include those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease. As of December 31, 2022 and 2021, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates and Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC).

PGL is a holding company incorporated in the British Virgin Islands.

POGM is a holding company incorporated under the laws of Mauritius. POGM owns an offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI).

As of December 31, 2022 and 2021, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

Petron Malaysia is involved in the refining and marketing of petroleum products in Malaysia.

PFL is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a holding company incorporated in Hong Kong in March 2008. As of December 31, 2022 and 2021, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

Mema is a holding company acquired by the Parent Company on June 30, 2022. As of December 31, 2022, Mema owns 100% of Weldon Offshore Strategic Limited Incorporated which owns 100% of Petrofuel Logistics, Inc. (PLI). PLI engages in the business of providing logistics and freight forwarding services for the hauling, carriage, transportation, forwarding, and/or storage of various goods and products.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of consolidated statements of income and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2022 and 2021.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income (OCI) to consolidated statements of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of Amended Standards</u>

The FSRSC approved the adoption of a number of amended standards as part of PFRS.

The Group has adopted the following PFRS effective January 1, 2022 and accordingly, changed its accounting policies in the following areas:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16, *Leases*). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of an entity’s ordinary activities, the amendments require the entity to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards, of which the following are applicable to the Group:

    - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *Financial Instruments*). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

    - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

    - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

    - replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirement;

    - added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

    - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The adoption of the amended standards did not have a material effect on the consolidated financial statements.

<u>New and Amended Standards Not Yet Adopted</u>

A number of new and amended standards are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

  - provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and

  - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16 *Leases*). The amendments confirm the following:

  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

  - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

  A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. A seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into on or after the date of initial application of PFRS 16.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfillment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfillment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

  PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

  On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FSRSC decided to postpone the effective date until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

<u>Financial Instruments</u>
Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

The Group classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group’s investments in equity and debt instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group’s derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income.

The Group’s derivative liabilities that are not designated as cash flow hedge are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in “Interest expense and other financing charges” account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

The Group’s liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in other comprehensive income, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2022 and 2021 (Note 36).

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has embedded derivatives as at December 31, 2022 and 2021 (Note 36).

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, the Group uses the first-in, first-out method in costing petroleum products and crude oil. Cost is determined using the moving-average method in costing lubes and greases, blending components, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

Prepaid Expenses and Other Current Assets
Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*
The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control
The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Share in net income of an associate and joint venture" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income of an associate and joint venture" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Share in net income of an associate and joint venture" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group's 25.06% interest in Petrogen, accounted for as an investment in an associate, 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The investment in associate and interest in joint ventures are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of joint ventures presented as part of "Other expenses - Net" account. As of December 31, 2022 and 2021, the Group has capital commitments amounting to P1.5 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these associate and joint ventures.

Results of operations as well as financial position balances of PDSI and TBSB were less than 1% of the consolidated balances of the Group and as such are assessed as not material; hence, not separately disclosed.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less impairment in value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation for property, plant and equipment other than those assets used in production such as refinery and plant equipment, which commences when the assets are available for its intended use, are computed using the straight-line method. Effective January 1, 2020, depreciation of refinery and plant equipment used in production is computed based on the unit of production method (UPM) which considers the expected capacity over the estimated useful lives of these assets. The estimated useful lives of the assets are as follows:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 35
Service stations and other equipment	3 - 30
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 - 12 or the term of the lease, whichever is shorter

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For income tax reporting purposes, depreciation are computed using the double-declining balance method.

The remaining useful lives, residual values, and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset; and

- the Group has the right to direct the use of the identified asset.

Group as a Lessee
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in the consolidated statements of income if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets, including pallets and computer equipment. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

The Group has applied COVID-19-Related Rent Concessions. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

Group as a Lessor
The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15 to allocate the consideration in the contract.

The Group identified the use of loaned equipment related to the sale of goods to be accounted for under PFRS 16. The Group provides equipment such as pumps, tanks, signage and other ancillary equipment necessary for the operation of the business. These are loaned to the customers for the duration of the contract for the sole purpose of storing, handling and selling products and shall, at all times, remain the property of Petron. The Group allocates portion of the revenue to the use of loaned equipment and presented as part of “Sales” in the consolidated statements of income based on adjusted market assessment approach. Lease revenue from the use of loaned equipment is contingent to, and recognized at the same time as, the sale of goods.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and any accumulated impairment in value. Cost also includes any related asset retirement obligation (ARO), if any. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation, which commences when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements	7 - 50
Land and leasehold improvements	10 -12 or the term of the lease, whichever is shorter

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statements of income in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is an actual change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is an actual change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and amortization method used for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the other intangible assets with finite lives:

	Number of Years
Software	5 - 7
Franchise fee	3 - 10
Other intangibles	10 - 16

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

As of December 31, 2022 and 2021, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter “P” and two flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights endure during the lifetime of the creator and for another 50 years after creator’s death.

The amount of intangible assets is included as part of “Other noncurrent assets - net” in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of “Selling and administrative expenses” account in the consolidated statements of income.

Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, right-of-use assets, investment property, intangible assets with finite useful lives, investment in shares of stock of an associate and interest in joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Cylinder Deposits

The Group purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to about 90% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of all its dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the consolidated statements of income.

Fair Value Measurements

The Group measures financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

Capital Stock

Common Shares. Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares. Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Parent Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Capital Securities
Senior Perpetual Capital Securities (SPCS) and *Redeemable Perpetual Securities (RPS)* are classified as equity instruments in the consolidated financial statements since these securities are perpetual securities in respect of which there is no fixed redemption date and the redemption is at the option of the Parent Company. Also, the Parent Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 22).

Incremental costs directly attributable to the issuance of capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to capital securities.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Equity Reserve
The equity reserve includes the effect of transactions with non-controlling interests and equity adjustments.

Translation Reserve
The translation reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Retirement Plan
The reserve for retirement plan represents re-measurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest).

Hedging Reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

Treasury Stock
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue
The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue is recognized at the point in time when control of petroleum and related products is transferred to the customer, which is normally upon delivery of the goods. The Group provides trade discounts and volume rebates to certain customers based on the level of their purchases which may be applied against the amount of their existing or future payables to the Group. Trade discounts and volume rebates do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each month. The general payment terms with customers are combination of prepayments and credit terms on an average of 45 days from invoice date.

The Group identified several performance obligations related to the sale of goods and accounted for them separately:

- *Provisions of Technical Support.* The Group provides technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs. Revenue is recognized over time upon rendering of services to the customer. The Group allocates portion of the revenue to the technical support based on expected cost plus a margin approach.

- *Consumer Loyalty Program.* The Group has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Group's products, rewards, discounts and other privileges from partner merchants. Revenue is allocated between the goods sold and the points issued that are expected to be redeemed. This allocation is based on the relative stand-alone selling price of the points. A deferred liability account is set up for these points. The liability will be reversed when the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed. The deferred liability is based on the best estimate of future redemption profile. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

Service Income. Revenue is recognized over time when the performance of contractually agreed task has been rendered and control over the services has been transferred to the customer. General payment terms is on an average of 45 days from invoice date.

Other sources of revenue are as follows:

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Dividend Income. Dividend income is recognized when the Group’s right to receive the payment is established.

Rent Income. Rent income from operating leases (net of any incentives given to the lessees), other than from the use of loaned equipment, is recognized on a straight-line basis over the lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Other Income. Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Group and that can be measured reliably.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits
Short-term Employee Benefits. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits Costs and Other Employee Benefit Costs. Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset;
- Remeasurements of defined benefit retirement liability or asset; and
- Settlement gain or loss, if any.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

Settlement gain or loss pertains to the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement. Any gain or loss on settlement is recognized as income or expense in the consolidated statements of income.

The Group also provides other benefits to its employees as follows:

Corporate Performance Incentive Program. The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

Savings Plan. The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

Land/Home Ownership Plan. The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

<u>Foreign Currency</u>
Foreign Currency Translations. Transactions in foreign currencies are initially recorded in the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Foreign Operations. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in OCI and presented in the "Other reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statements of income as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in share of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in OCI, and presented in the "Other reserves" account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in consolidated statements of income. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Trade and other payables” accounts in the consolidated statements of financial position.

<u>Related Parties</u>
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

<u>Operating Segments</u>
The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 38 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and consumer loyalty program and allocates the transaction price into these several performance obligations.

Determining whether a Contract Contains a Lease. The Group uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Group makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

Operating Lease Commitments - Group as Lessor. The Group has entered into various lease agreements as lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rent income recognized as “Other operating income” in the consolidated statements of income amounted to P1,538, P1,273 and P1,047 in 2022, 2021 and 2020, respectively. Rent income recognized as part of “Other expenses - net” account in the consolidated statements of comprehensive income amounted to P63 each in 2022, 2021 and 2020 (Notes 27 and 30). Revenues from the customers’ use of loaned equipment amounted to P1,173, P1,153 and P1,150 in 2022, 2021 and 2020, respectively (Note 38).

Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgement estimates.

Determining the Lease Term of Contracts with Renewal Options - Group as Lessee. The Group determines the lease term as the noncancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group has several lease contracts that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

Determining Whether the Group is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Group is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Group obtains control of the specified goods and services before it is transferred to the customer.

For the sale of petroleum products to dealers, the Group transfers the control of the goods upon delivery, hence, the Group has determined that it is acting as principal in the sales transactions with dealers. The dealers are likewise acting as principal in the sales transactions to end consumers on the basis of the following: (a) the dealers have the primary responsibility to provide specified goods to the end consumers; (b) the dealers bear inventory risk before the goods are transferred to end consumers; and (c) the dealers have discretion to establish prices for specified goods.

For the Group’s fleet card transactions, the Group has likewise determined that it is acting as principal in the sales transactions with the customers since the Group has the primary responsibility for providing goods purchased through fleet cards and the Group has discretion to establish prices for specified goods in a fleet card transaction.

Classification of Financial Instruments. The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 36.

Evaluating Control or Significant Influence over its Investees. Determining whether the Group has control or significant influence in an investee requires significant judgment. The Group has assessed it has lost its control over Petrogen upon the decrease in ownership interest from 100% to 25.06% in 2021. The Group has no longer the power, in practice, to govern the financial and operating policies of Petrogen, to appoint or remove the majority of the members of the BOD of Petrogen and to cast majority votes at meetings of the BOD of Petrogen. However, the Group has determined that it exercises significant influence over Petrogen by virtue of its representation in the BOD of Petrogen (Note 14).

The Group likewise determined that it has control over Mema upon acquisition of its 100% of its authorized capital on June 30, 2022. The Group has the power, in practice, to govern the financial and operating policies of Mema, to appoint or remove the majority of the members of the BOD of Mema and to cast majority votes at meetings of the BOD of Mema. The Group controls Mema since it is exposed, and has rights, to variable returns from its involvement with Mema and has the ability to affect those returns through its power over Mema (Note 13).

Distinction Between Property, Plant and Equipment and Investment Property. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determining Impairment Indicators of Other Non-financial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, investment in shares of stock of an associate and interest in joint ventures, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

Taxes. Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

In the determination of the Group's current taxable income, entities within the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. Entities within the Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2022, 2021 and 2020, majority of the entities within the Group opted to continue claiming itemized standard deductions except for certain subsidiaries of NVRC such as LLCDC, MLC, SLPHI, ARC and PEDC, as they opted to apply OSD (Note 28).

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment for ECL on Trade and Other Receivables. The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of receivables are normally collected within one year. Moreover, based on Management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Impairment losses on trade and other receivables amounted to P3, P28 and P67 in 2022, 2021 and 2020 respectively (Notes 8 and 24). Receivables written-off amounted to P97 in 2022, P6 in 2021 and P8 in 2020 (Note 8).

The carrying amount of trade and other receivables amounted to P81,979 and P51,745 as of December 31, 2022 and 2021, respectively (Note 8).

Assessment for ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks, the Government of the Philippines and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2022 and 2021. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2022**	2021
Cash in banks and cash equivalents	*5*	**P35,819**	P35,318
Noncurrent deposits	*15*	**127**	128
		P35,946	P35,446

Net Realizable Values of Inventories. In determining the NRV of inventories, management takes into account the most reliable evidence available at the time the estimates are made. Future realization of the carrying amount of inventories of P85,347 and P67,684 as of the end of 2022 and 2021, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized loss on inventory write-down amounting to P356 in 2022, P37 in 2021 and nil in 2020 (Note 9).

Allowance for Inventory Obsolescence. The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2022, 2021 and 2020, the Group provided an additional loss on inventory obsolescence amounting to P73, nil, and P73, respectively (Note 9).

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 36.

Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Asset, Investment Property and Intangible Assets with Finite Useful Lives. The Group estimates the useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use asset, investment property, intangible assets with finite useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, right-of-use asset, investment property, intangible assets with finite useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, right-of-use asset, investment property, intangible assets with finite useful lives would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

Except for refinery and plant equipment used in production, there is no change in estimated useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on management's review at the reporting date.

Starting January 1, 2020, the Group adopted the UPM of accounting for depreciation of refinery and plant equipment used in production. UPM closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, net of accumulated depreciation, amounted to P170,153 and P171,602 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of property, plant and equipment, amounted to P115,586 and P106,424 as of December 31, 2022 and 2021, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation, amounted to P5,398 and P5,648 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of right-of-use asset amounted to P2,295 and P1,728 as of December 31, 2022 and 2021, respectively (Note 11).

Investment property, net of accumulated depreciation, amounted to P28,437 and P29,175 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of investment property amounted to P19,965 and P17,852 as of December 31, 2022 and 2021, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P110 and P139 as of December 31, 2022 and 2021, respectively (Note 15). Accumulated amortization of intangible assets with finite useful lives amounted to P759 and P708 as of December 31, 2022 and 2021, respectively.

Fair Value of Investment Property. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering: (a) the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation; or (b) the depreciated replacement cost of the asset, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Estimated fair values of investment property amounted to P48,413 and P43,119 as of December 31, 2022 and 2021, respectively (Note 12).

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on the value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 1% and 3% in 2022 and 2021, respectively, and discount rates of 8.4% and 7.7% in 2022 and 2021, respectively (Note 13).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

No impairment losses were recognized in 2022, 2021 and 2020 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2022 and 2021.

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P1,812 and P2,172 as of December 31, 2022 and 2021, respectively (Note 28).

Present Value of Defined Benefit Retirement Obligation. The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 31 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

Retirement benefits costs recognized in the consolidated statements of income amounted to P519, P434 and P430 in 2022, 2021 and 2020, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P626, P597 and P631 in 2022, 2021 and 2020, respectively. The retirement benefits liability amounted to P3,327 and P3,459 as of December 31, 2022 and 2021, respectively (Note 31).

Asset Retirement Obligation (ARO). The Group has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of ARO based on the dismantling costs as estimated by the operating unit responsible for the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 3.25% to 8.47% depending on the life of the capitalized costs. The Group also conducts periodic review of the estimates of dismantling costs to consider actual expenses incurred during the actual retirement of assets and uses this as input in determining future liability. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,559 and P2,877 as of December 31, 2022 and 2021, respectively (Note 20).

5. Cash and Cash Equivalents

This account consists of:

	Note	**2022**	2021
Cash on hand		**P1,364**	P1,088
Cash in banks		**8,854**	8,972
Short-term placements		**26,965**	26,346
	35, 36	**P37,183**	P36,406

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.05% to 6.32% in 2022, 0.01% to 2.75% in 2021 and 0.01% to 5.75% in 2020 (Note 27).

6. Financial Assets at Fair Value

This account consists of:

	Note	**2022**	2021
Proprietary membership shares		**P352**	P298
Derivative assets not designated as cash flow hedge		**1,257**	687
Derivative assets designated as cash flow hedge		**181**	53
	35, 36	**1,790**	1,038
Less: noncurrent portion	*15*	**37**	33
		P1,753	P1,005

The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 36).

The noncurrent portion pertains to derivative assets designated as cash flow hedge due after 12 months, which is included in "Other noncurrent assets - net" account in the consolidated statements of financial position (Note 15).

Changes in fair value of assets at FVPL recognized in the consolidated statements of income in 2022, 2021 and 2020 amounted to P54, P23 and (P9), respectively (Note 27) while changes in fair value of derivative assets designated as cash flow hedge were recognized in OCI.

7. Investments in Debt Instruments

The reconciliation of the carrying amounts of investments in debt instruments as of December 31 follows:

	Note	2021
Financial Assets at FVOCI		
Balance as of January 1		P126
Disposals*		(126)
Balance as of December 31		-
Financial Assets at Amortized Cost		
Balance as of January 1		255
Disposals*		(255)
Balance as of December 31		-
	14, 35, 36	P -

**Disposal in 2021 was due to deconsolidation of Petrogen (see Note 14).*

8. Trade and Other Receivables

This account consists of:

	Note	**2022**	2021
Trade	*35*	**P53,087**	P32,705
Related parties - trade	*29, 35*	**6,112**	2,684
Allowance for impairment loss on trade receivables		**(737)**	(839)
		58,462	34,550
Government		**19,190**	14,853
Related parties - non-trade	*29*	**1,007**	1,193
Others		**3,509**	1,338
Allowance for impairment loss on non-trade receivables		**(189)**	(189)
		23,517	17,195
	35, 36	**P81,979**	P51,745

Trade receivables are non-interest bearing and are generally on a 45-day average term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to nil and P13,273 as of December 31, 2022 and 2021, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of advances made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and counterparties for matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2022 and 2021 is shown below:

	Note	**2022**	2021
Balance at beginning of year		**P1,343**	P1,302
Additions	*24*	**3**	28
Write off	*4*	**(97)**	(6)
Reversal/reclassifications		**(11)**	3
Currency translation adjustment		**13**	16
Balance at end of year		**1,251**	1,343
Less noncurrent portion for long-term receivables	*35*	**325**	315
		P926	P1,028

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience over the past three years. Economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of the impact of future economic conditions, if any, over the expected lives of the trade and other receivables are also considered.

Trade accounts receivable written-off amounting to P97 and P6 in 2022 and 2021, respectively, pertained to long outstanding, uncollectible accounts which were previously provided with allowance.

The following table provides information about the exposure to credit risk and ECL of trade and other receivables as of December 31, 2022 and 2021:

	Weighted Average Loss Rate	**Gross Carrying Amount**	**ECL**
December 31, 2022			
Retail	**1.38%**	**P6,095**	**P84**
Lubes	**0.11%**	**885**	**1**
Gasul	**4.12%**	**1,286**	**53**
Industrial	**0.93%**	**30,168**	**281**
Others	**1.14%**	**44,471**	**507**
		P82,905	**P926**

	Weighted Average Loss Rate	Gross Carrying Amount	ECL
December 31, 2021			
Retail	2.46%	P4,470	P110
Lubes	1.24%	646	8
Gasul	4.47%	1,186	53
Industrial	2.08%	17,104	355
Others	1.71%	29,367	502
		P52,773	P1,028

9. Inventories

This account consists of:

	2022	2021
Crude oil and others	**P38,512**	P32,573
Petroleum	**37,260**	26,168
Materials and supplies	**5,128**	5,458
Lubes, greases and aftermarket specialties	**4,447**	3,485
	P85,347	P67,684

The cost of these inventories amounted to P86,346 and P68,291 as of December 31, 2022 and 2021, respectively.

If the Group had used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P1,487 and decreased by P994 as of December 31, 2022 and 2021, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P804,136, P393,781 and P262,938 in 2022, 2021 and 2020, respectively (Note 23).

Research and development costs on these products constituted the expenses incurred for internal projects in 2022, 2021 and 2020 (Note 24).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2022 and 2021 are as follows:

	Note	**2022**	2021
Balance at beginning of year		**P607**	P613
Additions/reductions:			
Inventory obsolescence	*4*	**73**	(43)
Inventory write-down	*4*	**356**	37
Reversals		**(37)**	-
Balance at end of year		**P999**	P607

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income. Reversal of write-down corresponds to inventories sold during the year (Note 23).

10. Property, Plant and Equipment

The movements and balances of property, plant and equipment as of and for the years ended December 31 follow:

	Note	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Cost								
January 1, 2021		P23,497	P194,249	P19,784	P5,887	P4,134	P20,182	P267,733
Additions		113	1,903	149	111	92	7,164	9,532
Disposals/reclassifications		880	9,918	(89)	271	98	(11,200)	(122)
Reclassification to/from investment property	*12*	(223)	-	-	-	(50)	(10)	(283)
Currency translation adjustment		296	751	243	61	50	(235)	1,166
December 31, 2021		24,563	206,821	20,087	6,330	4,324	15,901	278,026
Additions		127	2,150	265	498	-	2,893	5,933
Acquisition of subsidiary	*13*	-	-	-	261	5	-	266
Disposals/reclassifications		1,724	3,049	(206)	29	48	(5,200)	(556)
Reclassification to/from investment property	*12*	222	-	-	-	32	-	254
Currency translation adjustment		480	824	332	81	63	36	1,816
December 31, 2022		**27,116**	**212,844**	**20,478**	**7,199**	**4,472**	**13,630**	**285,739**
Accumulated Depreciation								
January 1, 2021		13,793	65,244	13,690	4,994	1,181	-	98,902
Depreciation		875	4,687	941	459	91	-	7,053
Disposals/reclassifications		(47)	(1)	(13)	(65)	4	-	(122)
Reclassification to/from investment property	*12*	-	-	-	-	(4)	-	(4)
Currency translation adjustment		173	241	134	46	1	-	595
December 31, 2021		14,794	70,171	14,752	5,434	1,273	-	106,424
Depreciation		966	6,543	1,108	238	93	-	8,948
Acquisition of subsidiary	*13*	-	-	-	45	2	-	47
Disposals/reclassifications		(46)	-	(518)	(50)	4	-	(610)
Reclassification to/from investment property	*12*	(106)	-	-	-	-	-	(106)
Currency translation adjustment		263	349	208	63	-	-	883
December 31, 2022		**15,871**	**77,063**	**15,550**	**5,730**	**1,372**	**-**	**115,586**
Carrying Amount								
December 31, 2021		P9,769	P136,650	P5,335	P896	P3,051	P15,901	P171,602
December 31, 2022		**P11,245**	**P135,781**	**P4,928**	**P1,469**	**P3,100**	**P13,630**	**P170,153**

In 2022 and 2021, certain property, plant and equipment were reclassified to/from investment property due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 12).

No impairment loss was required to be recognized in 2022, 2021 and 2020 based on management's assessment of impairment indicators.

Certain fully depreciated property, plant and equipment with aggregate costs of P29,924 and P25,485 as at December 31, 2022 and 2021, respectively, are still being used in the Group's operations.

The Group capitalized interest amounting to P536, P337 and P313 in 2022, 2021, and 2020, respectively (Notes 16, 19, 27 and 30). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.27% to 8.22% in 2022 and from 1.34% to 8.21% in 2021.

Capital Commitments

As of December 31, 2022 and 2021, the Group has outstanding commitments to acquire property, plant and equipment amounting to P6,061 and P6,161, respectively.

11. Right-of-Use Assets

The movements and balances of right-of-use assets as of and for the years ended December 31 follow:

	Note	**Land**	**Buildings and Improvements and Related Facilities**	**Service Stations and Other Equipment**	**Total**
Cost					
January 1, 2021		P6,567	P1,093	P24	P7,684
Additions		171	421	-	592
Remeasurements		(517)	(406)	-	(923)
Currency translation adjustment		20	3	-	23
December 31, 2021		6,241	1,111	24	7,376
Additions		61	6	-	67
Acquisition of subsidiary	*13*	-	15	-	15
Remeasurements		104	53	46	203
Currency translation adjustment		28	3	1	32
December 31, 2022		**6,434**	**1,188**	**71**	**7,693**
Accumulated Depreciation					
January 1, 2021		1,189	444	6	1,639
Remeasurements		(132)	(406)	-	(538)
Depreciation		415	201	3	619
Currency translation adjustment		6	2	-	8
December 31, 2021		1,478	241	9	1,728
Remeasurements		(109)	11	2	(96)
Depreciation		420	223	4	647
Acquisition of subsidiary	*13*	-	3	-	3
Currency translation adjustment		9	4	-	13
December 31, 2022		**1,798**	**482**	**15**	**2,295**
Carrying Amount					
December 31, 2021		P4,763	P870	P15	P5,648
December 31, 2022		**P4,636**	**P706**	**P56**	**P5,398**

The Group recognized right-of-use assets for leases of office space, buildings, machinery and equipment, service stations and parcels of land. The leases typically run for a period of two to 999 years. Some leases contain an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Group. The Group recognized interest expense related to these leases amounting to P1,065 and P1,070 in 2022 and 2021, respectively (Note 27 and 30).

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases, leases of low-value assets and variable lease payments that do not depend on an index or a rate amounted to P511, P10 and P4, respectively, in 2022, and P314, P8 and P4, respectively, in 2021 (Note 30).

The Group had total cash outflows for leases of P3,208, P2,862 and P2,972 in 2022, 2021 and 2020, respectively (Note 30).

The remeasurements pertain mainly to the change in the estimated dismantling costs of ARO during the year (Note 4).

12. Investment Property

The movements and balances of investment property as of and for the years ended December 31 follow:

	Note	Land	Land and Leasehold Improvements	Buildings and Improvements	Right-of-Use	Total
Cost						
January 1, 2021		P9,208	P5,744	P18,070	P12,372	P45,394
Additions		5	204	486	117	812
Disposals/reclassifications		-	-	118	(131)	(13)
Reclassifications from/to property, plant and equipment	*10*	(46)	96	233	-	283
Currency translation adjustment		86	213	252	-	551
December 31, 2021		9,253	6,257	19,159	12,358	47,027
Additions		3	-	284	638	925
Disposals/reclassifications		(12)	(2,382)	(186)	2,529	(51)
Reclassifications from/to property, plant and equipment	*10*	(32)	-	(222)	-	(254)
Currency translation adjustment		114	289	352	-	755
December 31, 2022		**9,326**	**4,164**	**19,387**	**15,525**	**48,402**
Accumulated Depreciation						
January 1, 2021		-	4,194	9,321	1,830	15,345
Depreciation		-	329	720	884	1,933
Disposals/reclassifications		-	-	40	(154)	(114)
Reclassifications from/to property, plant and equipment	*10*	-	(4)	-	-	(4)
Currency translation adjustment		-	269	423	-	692
December 31, 2021		-	4,788	10,504	2,560	17,852
Depreciation		-	28	694	1,264	1,986
Disposals/reclassifications		-	(4,051)	(1)	3,799	(253)
Reclassifications from/to property, plant and equipment	*10*	-	-	106	-	106
Currency translation adjustment		-	109	166	(1)	274
December 31, 2022		**-**	**874**	**11,469**	**7,622**	**19,965**
Carrying Amount						
December 31, 2021		P9,253	P1,469	P8,655	P9,798	P29,175
December 31, 2022		**P9,326**	**P3,290**	**P7,918**	**P7,903**	**P28,437**

In 2022 and 2021, certain investment property were reclassified from/to property, plant and equipment due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 10).

No impairment loss was required to be recognized in 2022, 2021 and 2020 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2022, 2021 and 2020.

The fair value of investment property amounting to P48,413 and P43,119 as of December 31, 2022 and 2021, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

For properties with available appraisal reports, the fair value of investment property amounting to P32,813 and P27,166 as of December 31, 2022 and 2021, respectively, were determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis. The fair value of investment property amounting to P6,110 and P6,017 as of December 31, 2022 and 2021, respectively, were determined by using the depreciated replacement cost method. The net present value of lease liability recognized in investment property as of December 31, 2022 and 2021 represents the remaining fair value amounting to P9,490 and P9,936, respectively.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Sales Comparison Approach. The market value of land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established through such process of comparing available data. The property being valued is then compared with sales transactions involving similar properties in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Depreciated Replacement Cost Method. The fair value of land and leasehold improvements and buildings and related improvements and facilities were arrived at using the depreciated replacement cost method, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the remaining lease payments on the property is first determined followed by the application of the proper capitalization rate is applied to arrive at its net present value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment.

13. Business Combination, Investment in Shares of Stock of Subsidiaries, Goodwill and Non-controlling Interests

Business Combination and Investment in Shares of Stock of Subsidiaries

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

Mema

On February 16, 2022, the Parent Company paid P104 for the acquisition of 10,000,000 common shares with par value of P1.00 per share representing 100% of the authorized capital stock of Mema. The Mema group includes the subsidiary engaged in hauling and logistics services (Note 2). On June 30, 2022, control over the investee has been transferred to the Group after the resolution of the substantive pending issues agreed by both the seller and the Parent Company. On December 29, 2022, P300 adjustment in purchase price was agreed by the Parent Company and the seller. As of December 31, 2022, the adjustment in purchase price is still outstanding (Note 18) and was subsequently settled to the seller in February 2023.

The fair value of net assets acquired amounted to P426 on June 30, 2022. The group recognized P22 gain on acquisition, presented under "Other income (expenses) - net" in the consolidated statements of income in 2022, which pertains to the excess of fair value of assets acquired and liabilities assumed over the consideration paid / accrued.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	June 30, 2022
Assets	
Cash and cash equivalents	P3,406
Accounts and other receivables	2,034
Prepaid expenses and other current assets	69
Property, plant and equipment - net	219
Other noncurrent assets	15
Liabilities	
Accounts and other payables	(5,303)
Other liabilities	(14)
Total Identifiable Net Assets	**P426**

The fair value of trade and other receivables amounted to P2,034. None of the receivables has been impaired and the full amount is expected to be collected. As of December 31, 2022, P2,000 was already collected.

Accounts and other payables amounting to P5,165 was settled as of December 31, 2022 from the existing cash and the collected receivables.

The fair value of the acquired property, plant and equipment was measured using depreciated replacement cost by considering the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Mema has contributed to Group's net income of P26 from the acquisition date to December 31, 2022. Had the acquisition occurred on January 1, 2022, the Group's revenue and net income in 2022 would have been P857,638 and P6,693, respectively. Mema has no contribution to consolidated sales since the entity provides hauling and logistics services to the Parent Company.

On October 27, 2022, the Parent Company and Mema executed a Subscription Agreement to subscribe to an additional 1,375,000,000 common shares of Mema for a subscription price of P1,375 or P1.00 per common share, of which P899 was paid in 2022.

Ovincor
On June 22, 2021 and December 9, 2021, the Executive Committee of the BOD of the Parent Company approved the proposal of Management for an additional investment in Ovincor amounting to US$1 million and US$5.2 million, respectively. This is to expand Ovincor's capability to retain a bigger share of insurance cover for the Parent Company. The additional investments were paid on August 19, 2021 and December 15, 2021, respectively.

Goodwill
The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	2022	2021
Cost		
Balance at beginning of year	**P8,235**	P8,031
Translation adjustments	**274**	204
Net carrying amount at end of year	**P8,509**	P8,235

Impairment of Goodwill from Petron Malaysia
Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2022 and 2021, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

The Group tested the goodwill for impairment. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU and was based on the following key assumptions:

- Cash flows were projected based on past experience actual operating results, and justifiable assumptions for future business performance but excluding net cash inflows from expansion projects like new stations, Management believes that this five to ten-year forecast period was justified due to the long-term nature of the business.

- A discount rate of 8.4% in 2022 and 7.7% in 2021 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).

- In 2022, cash flows beyond ten years were estimated by extrapolating the projections using a growth rate of 1% up to the CGU's maximum capacity as Management believes that the current network of service stations will mature and grow with the economy for the next thirty years. In 2021, cash flows beyond five years were estimated by extrapolating the projections using a steady growth rate of 3% up to the CGU's maximum capacity for the next thirty years.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of terminal growth rate sensitivity, terminal growth rate scenarios of 1%, 2%, and 3% in 2022 and 2%, 3% and 4% in 2021 are applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2022, 2021 and 2020 in relation to the goodwill arising from the acquisition of Petron Malaysia.

Non-controlling Interests

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2022		December 31, 2021	
	NVRC	**PMRMB**	NVRC	PMRMB
Non-controlling Interests Percentage	**14.45%**	**26.60%**	14.45%	26.60%
Carrying amount of non-controlling interest	**P476**	**P7,907**	P467	P6,858
Current assets	**P567**	**P32,736**	P617	P25,192
Noncurrent assets	**9,392**	**27,420**	9,415	27,287
Current liabilities	**(1,104)**	**(29,269)**	(1,219)	(25,486)
Noncurrent liabilities	**(3,695)**	**(2,899)**	(3,791)	(2,942)
Net assets	**P5,160**	**P27,988**	P5,022	P24,051
Net income attributable to non-controlling interests	**P9**	**P961**	P12	P755
Other comprehensive income attributable to non-controlling interests	**P -**	**P267**	P -	P177
Sales	**P397**	**P227,026**	P395	P109,483
Net income	**P137**	**P6,165**	P159	P2,842
Other comprehensive income	**-**	**24**	-	24
Total comprehensive income	**P137**	**P6,189**	P159	P2,866
Cash flows provided by (used in) operating activities	**P249**	**(P25)**	P123	(P3,832)
Cash flows provided by (used in) investing activities	**9**	**(863)**	(5)	(1,938)
Cash flows provided by (used in) financing activities	**(317)**	**219**	(158)	7,175
Effects of exchange rate changes on cash and cash equivalents	**-**	**(3)**	-	-
Net increase (decrease) in cash and cash equivalents	**(P59)**	**(P672)**	(P40)	P1,405

14. Investment in Shares of Stock of an Associate

Petrogen was incorporated and registered with the Philippine SEC on August 23, 1996 primarily to engage in the business of non-life insurance and re-insurance.

On September 10, 2019 and December 16, 2019, the Parent Company subscribed to additional 31,250 and 93,750 common shares, respectively, of Petrogen at P1,000.00 per share for a total consideration of P125, pursuant to the increase in the capital stock of Petrogen which was approved by the SEC on November 4, 2019. As at December 31, 2019, Petrogen has a total of 475,001 common shares issued and outstanding.

On October 21, 2020, the BOD of Petrogen approved the declaration of stock dividends in the total amount of P25 equal to 25,000 shares with par value of P1,000 per share and was subsequently approved by the Insurance Commission on January 4, 2021.

On December 3, 2020, the BOD of Petrogen approved the increase in its authorized capital stock from P750, divided into 750,000 shares, to P2,250, divided into 2,250,000 shares, with a par value of P1,000 per share. On the same date, Petrogen's BOD also approved the subscription of SMC to 1,494,973 shares at a book value of about P2,007 per share for an aggregate subscription price of P3,000. Petrogen received the SEC approval on February 8, 2021 on Petrogen's increase in authorized capital stock dated February 4, 2021 and issued 1,494,973 common shares with an aggregate par value of P1,495 to SMC for a total subscription price of P3,000. On March 1, 2021, the corresponding stock certificate was issued to SMC.

As a result, the Parent Company's ownership interest in Petrogen decreased from 100% to 25.06% and Petrogen was deconsolidated effective February 4, 2021. The carrying amount of the Parent Company's investment in Petrogen at deconsolidation date amounted to P991. The Group recognized P13 gain on deconsolidation.

The Group recognized P63 and P8 in 2022 and 2021, respectively, as share in net income of Petrogen accounted for using equity method.

Below summarizes the derecognized accounts at the deconsolidation date:

Cash and cash equivalents	P3,677
Trade and other receivables - net	568
Investments in debt instruments	381
Other current assets	91
Deferred tax assets - net	10
Trade and other payables	(733)
Deposits for future subscription	(3,000)
Equity reserves	(3)
Total	**P991**

As of December 31, 2022 and 2021, the Parent Company owns 25.06% of Petrogen accounted for as an investment in an associate.

Following are the condensed financial information of Petrogen as of and for the years ended December 31, 2022 and 2021:

	2022	2021
Percentage of ownership	**25.06%**	25.06%
Current assets	**P5,708**	P7,075
Noncurrent assets	**2,085**	649
Current liabilities	**(3,508)**	(3,686)
Net assets	**P4,285**	P4,038
Revenue	**P2,589**	P1,749
Net income	**P247**	P40
Share in net assets	**P1,075**	P1,012
Carrying amount of investment in shares of stock of an associate	**P1,075**	P1,012

15. Other Assets

This account consists of:

	Note	**2022**	2021
Current			
Prepaid taxes		**P33,566**	P26,754
Input VAT		**1,900**	3,011
Prepaid expenses	*29*	**1,168**	1,097
Special-purpose fund		**169**	158
Tax recoverable		**24**	5
Others - net		**198**	170
		P37,025	P31,195
Noncurrent			
Input VAT		**P94**	P127
Catalyst - net		**422**	489
Prepaid rent		**164**	202
Derivative assets designated as cash flow hedge	*6, 35, 36*	**37**	33
Noncurrent deposits	*35, 36*	**127**	128
Intangibles - net	*4*	**110**	139
Others - net		**446**	423
		P1,400	P1,541

The “Others - net” under “Noncurrent” account includes marketing assistance to dealers and other prepayments amounting to P256, P262 and P256 as of December 31, 2022, 2021 and 2020, respectively, net of amortization amounting to P47, P57 and P75 in 2022, 2021 and 2020, respectively.

The amortization of prepaid rent amounted to nil in 2022, nil in 2021 and P4 in 2020.

Amortization of intangibles, marketing assistance to dealers, other prepayments included as part of “Depreciation and amortization” under “Selling and administrative expenses” account in the consolidated statements of income amounted to P58, P67 and P86 in 2022, 2021 and 2020, respectively (Notes 24 and 26).

Amortization of catalyst, intangibles and other prepayments included as part of “Depreciation and amortization” under “Cost of goods sold” account in the consolidated statements of income amounted to P237, P176 and P261 in 2022, 2021 and 2020, respectively (Notes 23 and 26).

16. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 5 to 181 days and annual interest ranging from 1.28% to 6.88% in 2022, 1.18% to 2.95% in 2021 and 0.92% to 6.75% in 2020 (Note 27). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P4,316 in 2022, P2,089 in 2021 and P3,418 in 2020 (Note 27). Interest expense amounting to P169 was capitalized as part of property, plant and equipment in 2022 while P115 in 2021 and P174 in 2020 (Note 10).

17. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are non-interest bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Group are disclosed in Note 32.

Liabilities for crude oil and petroleum products are payable to the following:

	Note	**2022**	2021
Third parties		**P51,057**	P42,586
Related parties	*29*	**10**	55
	35, 36	**P51,067**	P42,641

18. Trade and Other Payables

This account consists of:

	Note	**2022**	2021
Trade		**P6,075**	P4,427
Specific taxes and other taxes payable		**8,205**	4,615
Accrued payroll		**204**	200
Due to related parties	*29*	**5,008**	1,470
Accrued interest		**1,245**	668
Accrued rent		**350**	330
Dividends payable	*34*	**470**	829
Asset retirement obligation - current	*20*	**32**	20
Insurance liabilities		**3**	154
Retention payable		**24**	78
Retirement benefits liability	*31*	**66**	132
Deferred liability on consumer loyalty program		**813**	814
Others	*13, 40*	**401**	264
	35, 36	**P22,896**	P14,001

Trade payables are liabilities to haulers, contractors and suppliers that are non-interest bearing and are generally settled on a 30-day term.

Others include provisions (Note 40), accruals of selling and administrative expenses, advances and other payables which are normally settled within a year.

The Group recognized revenue that was included in the deferred liability on consumer loyalty program amounting to P1,452 and P1,211 in 2022 and 2021, respectively (Note 38).

19. Long-term Debt

This account consists of long-term debt of the Parent Company:

	Note	**2022**	2021
Unsecured Peso-Denominated (net of debt issue costs)			
Term loan of 5.4583% due until 2022	*(a)*	**P -**	P1,000
Fixed rate retail bonds of 4.5219% due in 2023	*(b)*	**6,990**	6,979
Term loan of 5.5276% due until 2024	*(d)*	**3,744**	5,878
Term loan of 5.7584% due until 2022	*(e)*	**-**	2,497
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	*(f)*	**19,906**	19,867
Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027	*(k)*	**17,823**	17,779
Term loan of 4.5900% due until 2025	*(i)*	**3,116**	4,356
Term loan of 7.1663% due until 2027	*(l)*	**4,967**	-
Term loan of 7.4206% due until 2027	*(m)*	**4,969**	-
Term Loan of 7.5496% due until 2027	*(n)*	**4,968**	-
Term Loan of 6.4920% due in 2025	*(o)*	**2,359**	-
Term Loan of 6.8672% due in 2025	*(p)*	**621**	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - US$1,000 million due until 2022	*(c)*	**-**	7,219
Floating rate dollar loan - US$800 million due until 2024	*(g)*	**6,276**	22,992
Floating rate yen loan - JP¥15 billion due until 2025	*(h)*	**4,528**	6,556
Floating rate dollar loan - US$150 million due in 2023	*(j)*	**-**	7,522
Floating rate dollar loan - US$550 million due until 2027	*(q)*	**26,794**	-
	34, 35, 36	**107,061**	102,645
Less current portion		**13,399**	21,580
		P93,662	P81,065

a. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements. In 2022 and 2021, the Parent Company settled matured interim principal payments aggregating to P1,000 each year. The Parent Company has fully paid the facility as of December 31, 2022.

b. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US$475 million and US$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016. The Parent Company redeemed its P13,000 Series A retail bonds on October 27, 2021.

c. On June 16, 2017, the Parent Company signed and executed a US$1,000 million term facility and has initially drawn US$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US$115 million and US$470 million loans under the US$475 million (executed on September 29, 2014) and US$550 million (executed on July 20, 2015) term loan facilities, respectively. On October 10, 2017, the Parent Company drew the remaining US$400 million from the facility. The proceeds of which were used to settle the P20,000 Peso-denominated Notes issued on November 10, 2010 which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread. The Parent Company made partial principal payments of US$86 million and US$57 million in 2021 and US$221 million and US$148 million in 2020 against the US$600 million and US$400 million drawdowns, respectively and has fully paid the remaining balance in 2022.

d. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant in 2016. As of December 31, 2022, the P11,250 portion of the facility has already been paid.

e. On December 29, 2017, the Parent Company drew P10,000 from a P10,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements. The Parent Company has fully settled the facility in 2022.

f. On October 19, 2018, the Parent Company offered P20,000 fixed retail bonds (the "Offer Bonds") divided into Series C (P13,200) bearing interest at 7.8183% per annum and Series D (P6,800) bearing interest at 8.0551% per annum. The Series C Offer Bonds will mature on April 19, 2024 (5.5-year term) while the Series D Offer Bonds is due on October 19, 2025 (7-year term). Interests on these Offer Bonds are payable quarterly, commencing on January 19, 2019, and thereafter, on April 19, July 19, October 19 and January 19 of each year. The net proceeds from the issuance of the Offer Bonds were used primarily to settle short-term loans availed by the Parent Company to fund crude oil purchases and redeem a portion of the Parent Company's remaining Undated Subordinated Capital Securities (USCS) (Note 22), and the balance for general corporate purposes. The Offer Bonds were listed with the Philippine Dealing & Exchange Corp. on October 19, 2018.

g. On May 10, 2019, the Parent Company signed and executed a US$800 million term loan facility. Initial drawdown of US$300 million was made on May 15, 2019, the proceeds of which were used to refinance the Parent Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the Parent Company drew an additional US$236 million from the facility to partially prepay its US$1,000 million term loan facility. Finally, the remaining balance of US$264 million was drawn on July 10, 2019 to refinance various peso-denominated short-term loans and for general corporate purposes. The facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning May 15, 2021. The facility is subject to a floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months. In 2022 and 2021, US$343 million and US$228 million portion of the facility has been paid, respectively.

h. On April 22, 2020, the Parent Company drew JP¥15 billion from a JP¥15 billion term loan facility signed and executed on March 27, 2020. The proceeds were used to partially prepay its US$1 billion term loan facility. The JP¥ facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning March 27, 2022. It is subject to a floating interest rate based on JP¥ LIBOR plus a spread, repriced every 1, 3 or 6 months. Due to the global discontinuation of JPY LIBOR by December 31, 2021, an amendment was made to the JPY Facility adopting the Tokyo Overnight Average Rate (TONA) as the new benchmark rate. Beginning December 29, 2021, the floating interest rate on the JPY15 billion facility is based on TONA plus a spread, repriced every 1, 3 or 6 months. In 2022, the Parent Company has paid the principal amortizations amounting to JP¥4.29 billion.

i. On April 27, 2020, the Parent Company drew P5 billion from a P5 billion term loan facility which was signed and executed on April 23, 2020. The facility is subject to a fixed interest rate of 4.59% per annum and amortized over 5 years with a 12-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning July 27, 2021. The proceeds were used for general corporate purposes. In 2022 and 2021, P1,250 and P625 amortizations of principal have been paid.

j. On August 26, 2020, the Parent Company availed a US$150 million three-year long-term debt, subject to floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months that will mature on August 7, 2023. The proceeds were used to prepay part of the existing US$1.0 billion term loan facility and US$800 million loan. In 2022, the Parent Company has prepaid the principal in full.

k. On October 12, 2021, the Parent Company issued P18,000 retail bonds divided into Series E due in 2025 (P9,000) and Series F due in 2027 (P9,000) with interest rates of 3.4408% p.a. and 4.3368% p.a., respectively. The Bonds are listed on the Philippine Dealing & Exchange Corp. The proceeds were used for the redemption of the Company's Series A Bonds, the partial financing of a power plant project and payment of existing indebtedness.

l. On May 19, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on May 17, 2022. The facility is subject to a fixed interest rate of 7.1663% per annum and amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 semi-annual payments beginning May 19, 2024. The proceed were used for partial financing of a power plant project.

m. On June 15, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on June 10, 2022. The facility is subject to a fixed interest rate of 7.4206% interest per annum and amortized over 5 years with a 15-month grace period, after which the total principal will be amortized in 16 equal quarterly payment beginning September 15, 2023. The proceeds were used to partially pay the US$1,000 term loan facility.

n. On June 16, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on June 7, 2022. The facility is subject to a fixed interest rate of 7.5496% interest per annum and amortized over 5 years with a 15-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning September 16, 2023. The proceeds were used to pay balances of the US$1,000 million and various loan facilities.

o. On September 8, 2022, the Parent Company drew and availed a P2,375 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.4920% per annum and will be fully paid on September 8, 2025. The proceeds were partially used to pay existing indebtedness.

p. On September 30, 2022, the Parent Company drew and availed a P625 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.8672% per annum and will be fully paid on September 8, 2025. The proceeds will be used to pay existing indebtedness.

q. On November 8, 2022, the Parent Company signed and executed a US$550 million term loan facility. Initial drawdown of US$117 million was made on November 15, 2022, the proceeds of which were used to partially pay the US$800 million loan term loan facility. On November 29, 2022, the Company drew an additional US$150 million from the facility to fully prepay its US$150 million term loan facility. Additional US$228 million was drawn on December 15, 2022 to further partially prepay the US$800 million loan term loan facility. The US$550 million term loan facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning November 8, 2024. The facility is subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

The above-mentioned debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group has two financial covenants, namely, net leverage ratio not to exceed 6.5x and ratio of consolidated gross debt to consolidated net worth not to exceed 2.75x. In November 2020, the Group secured consent to amend the testing of its net leverage ratio from semi-annual to incurrence-based, while the ratio of consolidated gross debt to consolidated net worth remained to be tested quarterly.

As of December 31, 2022 and 2021, the Group has complied with the financial covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P6,165, P5,220 and P5,727 in 2022, 2021 and 2020, respectively (Note 27). Interest amounting to P269 was capitalized in 2022, P130 in 2021 and P49 in 2020 (Note 10).

Movements in debt issue costs follow:

	Note	2022	2021
Balance at beginning of year		**P982**	P1,368
Additions		**956**	229
Amortization for the year	*27*	**(603)**	(615)
Balance at end of year		**P1,335**	P982

Repayment Schedule

As of December 31, 2022 and 2021, the annual maturities of long-term debt are as follows (Note 35):

2022

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2023	**P13,472**	**P73**	**P13,399**
2024	**31,177**	**638**	**30,539**
2025	**31,225**	**348**	**30,877**
2026	**10,885**	**132**	**10,753**
2027 and beyond	**21,637**	**144**	**21,493**
	P108,396	**P1,335**	**P107,061**

2021

Year	Gross Amount	Debt Issue Costs	Net
2022	P21,869	P289	P21,580
2023	31,599	299	31,300
2024	23,785	121	23,664
2025	17,374	161	17,213
2026 and beyond	9,000	112	8,888
	P103,627	P982	P102,645

20. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2022	2021
Balance at beginning of year		**P2,877**	P2,867
Additions		**76**	133
Accretion for the year	*27*	**216**	252
Effect of change in estimates	*4*	**141**	86
Effect of change in discount rate		**252**	(457)
Settlement		**(3)**	(4)
Balance at end of year including current portion		**P3,559**	P2,877

21. Other Noncurrent Liabilities

This account consists of:

	Note	**2022**	2021
Cylinder deposits		**P736**	P687
Cash bonds		**420**	450
Derivative liabilities designated as cash flow hedge		**-**	25
Others		**45**	40
	35, 36	**P1,201**	P1,202

"Others" account includes liability to a contractor and supplier.

22. Equity

a. Capital Stock

Common Shares
Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2022 and 2021, the Parent Company had 144,388 and 144,720 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

Preferred Shares
On January 21, 2010, the SEC approved the Parent Company's amendment to its AOI to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the “Series 2A Preferred Shares”) and (ii) 2,877,680 Series 2B preferred shares (the “Series 2B Preferred Shares”). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company’s BOD.

All shares rank equally as regards to the Parent Company’s residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter’s rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing Parent Company’s AOI. On July 6, 2015, the SEC approved the amendment of the AOI of the Parent Company to provide a re-issuability feature of its preferred shares.

On May 31, 2019, the SEC issued a permit for the Parent Company’s public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the “Series 3 Preferred Shares”) at an issue price of P1,000.00 per share.

On June 25, 2019, the Parent Company issued and listed on the PSE 20,000,000 Series 3 Preferred Shares. The net proceeds from the issuance were used for the repayment of the Parent Company’s outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date. Cash dividends are payable quarterly on March 25, June 25, September 25 and December 25 of each year, as and if declared by the Parent Company’s BOD. Proceeds from issuance in excess of par value less related transaction costs amounting to P17,847 was recognized as additional paid-in capital.

On November 4, 2019, the Parent Company redeemed its 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019. The redemption was approved by the Parent Company’s BOD on March 12, 2019.

On November 3, 2021, the Parent Company redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 7, 2021. The redemption was approved by the Parent Company's BOD on March 9, 2021.

As of December 31, 2022 and 2021, the Parent Company had 20,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2022 and 2021 are as follows:

	2022	2021
Series 3A Preferred Shares	**10**	9
Series 3B Preferred Shares	**25**	24
	35	33

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2020, 2021 and 2022, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
2020				
Common	P0.10000	March 10, 2020	March 24, 2020	April 8, 2020
Series 2B	17.14575	March 10, 2020	April 7, 2020	May 4, 2020
Series 3A	17.17825	March 10, 2020	June 1, 2020	June 25, 2020
Series 3B	17.84575	March 10, 2020	June 1, 2020	June 25, 2020
Series 2B	17.14575	May 26, 2020	July 9, 2020	August 3, 2020
Series 3A	17.17825	May 26, 2020	September 2, 2020	September 25, 2020
Series 3B	17.84575	May 26, 2020	September 2, 2020	September 25, 2020
Series 2B	17.14575	August 4, 2020	October 9, 2020	November 3, 2020
Series 3A	17.17825	August 4, 2020	December 2, 2020	December 28, 2020
-Series 3B	17.84575	August 4, 2020	December 2, 2020	December 28, 2020
Series 2B	17.14575	November 3, 2020	January 8, 2021	February 3, 2021
Series 3A	17.17825	November 3, 2020	March 2, 2021	March 25, 2021
Series 3B	17.84575	November 3, 2020	March 2, 2021	March 25, 2021
2021				
Series 2B	P17.14575	March 9, 2021	April 7, 2021	May 3, 2021
Series 3A	17.17825	March 9, 2021	June 2, 2021	June 25, 2021
Series 3B	17.84575	March 9, 2021	June 2, 2021	June 25, 2021
Series 2B	17.14575	May 3, 2021	July 8, 2021	August 3, 2021
Series 3A	17.17825	May 3, 2021	September 2, 2021	September 27, 2021
Series 3B	17.84575	May 3, 2021	September 2, 2021	September 27, 2021
Series 2B	17.14575	August 3, 2021	October 7, 2021	November 3, 2021
Series 3A	17.17825	August 3, 2021	November 29, 2021	December 27, 2021
Series 3B	17.84575	August 3, 2021	November 29, 2021	December 27, 2021
Series 3A	17.17825	November 9,2021	March 3, 2022	March 25, 2022
Series 3B	17.84575	November 9,2021	March 3, 2022	March 25, 2022
Series 3A	17.17825	November 9,2021	June 3, 2022	June 27, 2022
Series 3B	17.84575	November 9,2021	June 3, 2022	June 27, 2022
2022				
Series 3A	**17.17825**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3B	**17.84575**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3B	**17.84575**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**
Series 3B	**17.84575**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**

Total cash dividends declared by the Parent Company amounted to P1,044 for 2022, P1,899 in 2021, P2,515 in 2020.

Appropriation for Capital Projects
On May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, LLCDC's BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On September 29, 2015, NVRC's BOD approved the appropriation of retained earnings of P200 (P120 - attributable to non-controlling interest) and on December 20, 2016, an additional appropriation of P200 (P120 - attributable to non-controlling interest) was approved, both for the programmed lot acquisitions which are expected to be completed in 2019.

On October 16, 2019, the BOD of NVRC authorized and approved the reversal of P400 appropriation following a change in the property acquisition plans of NVRC.

On March 9, 2021, the BOD of the Parent Company approved the reversal of P8,000 of the P15,000 appropriated retained earnings of the Parent Company since majority of the 2016 and 2017 capital projects were already completed while others were deferred. The remaining P7,000 is maintained for the Power Plant project which is expected to be completed in 2023.

On October 7, 2021, the BOD of PEDC approved the appropriation of its retained earnings amounting to P3 for acquisition of three lots located in Bulacan. As of December 31, 2022, the purchase transaction of these lots is ongoing and expected to be completed by the second half of 2023.

The appropriated retained earnings attributable to the equity holders of the Parent Company amounted to P7,003 as of December 31, 2022 and 2021.

c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P43,604, P33,573 and P26,345 as of December 31, 2022, 2021 and 2020, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

d. Equity reserves comprise of the following:

   Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.

Other reserves comprise the net loss on cash flows hedges, unrealized fair value losses on investments in debt instruments, exchange differences on translation of foreign operations, effect of redemption of USCS and others with details as follows:

	2022	2021	2020
Balance at beginning of year	**(P12,379)**	(P13,223)	(P12,195)
Net loss on cash flow hedges, net of tax	**54**	137	70
Changes in fair value of investment in debt instruments	**-**	-	1
Cumulative translation adjustment	**1,875**	707	(1,109)
Share in other comprehensive loss of a joint venture	**-**	-	10
Balance at end of year	**(P10,450)**	(P12,379)	(P13,223)

e. SPCS

On January 19, 2018, the Parent Company issued US$500 million SPCS with an issue price of 100% for the partial repurchase and redemption of the Parent Company's existing US$750 million USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. The Parent Company has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distributions pertaining to US$500 million SPCS were made on the following dates: July 18, 2022 (P864), January 18, 2022 (P787), July 16, 2021 (P770), January 15, 2021 (P737), July 17, 2020 (P814), January 17, 2020 (P834).

On April 19, 2021, Petron issued US$550 million Senior Perpetual Capital Securities (SPCS) at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds were used for the repayment of indebtedness and for general corporate purposes.

Payments of distributions pertaining to US$550 million SPCS was made on October 18, 2022 (P1,286), April 18, 2022 (P1,140), October 18, 2021 amounting to (P1,108).

These SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the SRC was required to be filed with the SEC.

f. RPS

On November 27, 2019, the Parent Company issued US$6 million RPS to be used for capital expenditures requirements.

Holders of the RPS are conferred a right to receive distributions on a quarterly basis, every February 27, May 27, August 27 and November 27. The Parent Company has a right to defer the distribution under certain conditions.

Distributions to holders of the RPS were made on November 25, 2022 (P3), August 30, 2022 (P3), May 27, 2022 (P3), March 1, 2022 (P3), November 27, 2021 (P3), August 27, 2021 (P3), May 27, 2021 (P3), February 27, 2021 (P3), November 27, 2020 (P3), August 27, 2020 (P3), May 27, 2020 (P3) and February 27, 2020 (P3).

On June 22, 2020, the Parent Company issued US$130 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every March 22, June 22, September 22 and December 22.

Payment of distributions pertaining to RPS were made on December 22, 2022 (P65), September 22, 2022 (P69), June 22, 2022 (P64), March 22, 2022 (P62), December 22, 2021 (P59), September 22, 2021 (P59), June 22, 2021 (P57), March 22, 2021 (P57), December 22, 2020 (P56) and September 22, 2020 (P57).

On August 10, 2020, the Parent Company issued additional US$100 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every February 10, May 10, August 10 and November 10.

Holders of the RPS were paid on November 10, 2022 (P53), August 10, 2022 (P50), May 10, 2022 (P47), February 10, 2022 (P46), November 10, 2021 (P45), August 10, 2021 (P46), May 10, 2021 (P43), February 10, 2021 (P44) and November 10, 2020 (P43).

The RPS have no fixed redemption date and are redeemable in whole, or in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on any distribution payment date after 90 days from Issuance Date.

23. Cost of Goods Sold

This account consists of:

	Note	**2022**	2021	2020
Inventories	*9*	**P804,136**	P393,781	P262,938
Depreciation and amortization	*26*	**7,079**	5,099	4,802
Materials and supplies		**5,238**	3,431	2,969
Purchased services and utilities		**2,683**	1,387	1,567
Personnel expenses	*25*	**1,564**	1,413	1,463
Others	*30, 32*	**3,088**	2,447	3,581
		P823,788	P407,558	P277,320

Distribution or transshipment costs included as part of inventories amounted to P13,329, P6,035 and P8,290 in 2022, 2021 and 2020, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

24. Selling and Administrative Expenses

This account consists of:

	Note	**2022**	2021	2020
Depreciation and amortization	*26*	**P4,797**	P4,749	P4,688
Personnel expenses	*25*	**3,858**	3,219	3,103
Purchased services and utilities		**3,857**	3,524	3,988
Maintenance and repairs		**1,624**	1,429	1,177
Materials and office supplies		**811**	673	422
Advertising		**464**	318	421
Taxes and licenses		**350**	309	340
Rent	*30*	**291**	220	130
Impairment losses on trade and other receivables	*4, 8*	**3**	28	67
Others	*9*	**120**	88	53
		P16,175	P14,557	P14,389

Selling and administrative expenses include research and development costs amounting to P61, P62 and P66 in 2022, 2021 and 2020, respectively (Note 9).

25. Personnel Expenses

This account consists of:

	Note	**2022**	2021	2020
Salaries, wages and other employee costs	*29*	**P4,972**	P4,264	P4,194
Retirement benefits costs - defined benefit plan	*29, 31*	**367**	289	289
Retirement benefits costs - defined contribution plan	*29*	**83**	79	83
		P5,422	P4,632	P4,566

The above amounts are distributed as follows:

	Note	**2022**	2021	2020
Costs of goods sold	*23*	**P1,564**	P1,413	P1,463
Selling and administrative expenses	*24*	**3,858**	3,219	3,103
		P5,422	P4,632	P4,566

26. Depreciation and Amortization

This account consists of:

	Note	**2022**	2021	2020
Cost of goods sold:				
Property, plant and equipment	*10*	**P6,702**	P4,794	P4,363
Right-of-use assets	*11*	**140**	129	178
Other assets	*15*	**237**	176	261
	23	**7,079**	5,099	4,802
Selling and administrative expenses:				
Property, plant and equipment	*10*	**2,246**	2,259	2,168
Right-of-use assets	*11*	**507**	490	490
Investment property	*12*	**1,986**	1,933	1,944
Intangible assets and others	*15*	**58**	67	86
	24	**4,797**	4,749	4,688
	38	**P11,876**	P9,848	P9,490

27. Interest Expense and Other Financing Charges, Interest Income and Other Expenses

This account consists of:

	Note	**2022**	2021	2020
Interest expense and other financing charges:				
Long-term debt	*19*	**P5,320**	P4,490	P5,080
Short-term loans	*16*	**4,147**	1,974	3,244
Bank charges		**1,453**	1,240	729
Accretion on lease liability	*30*	**1,065**	1,070	1,115
Amortization of debt issue costs	*19*	**576**	600	598
Defined benefit obligation	*31*	**225**	201	241
Accretion on ARO	*20*	**216**	252	77
Product borrowings		**54**	171	218
Others		**38**	10	11
	38	**P13,094**	P10,008	P11,313
Interest income:				
Short-term placements	*5*	**P720**	P400	P507
Plan assets	*31*	**73**	56	100
Advances to related parties	*29*	**58**	79	94
Trade receivables	*8*	**37**	19	44
Cash in banks	*5*	**10**	10	17
Investments in debt instruments		**-**	-	18
	38	**P898**	P564	P780

Forward

	Note	2022	2021	2020
Other income (expenses) - net:				
Marked-to-market gains (losses) - net	*36*	**P4,673**	P315	(P2,428)
Changes in fair value of financial assets at FVPL	*6*	**54**	23	(9)
Hedging gains (losses) - net		**(739)**	104	(1,121)
Foreign currency gains (losses) - net	*35*	**(3,678)**	(1,242)	2,363
Others - net		**711**	318	146
		P1,021	(P482)	(P1,049)

The Group recognized share in the net income of TBSB amounting to P3.45 in 2022, P1.78 in 2021 and P4.16 in 2020. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income. Bank charges amounting to P49 was capitalized as part of property, plant and equipment in 2022 while P28 in 2021 and P5 in 2020 (Note 10).

Also included in "Others - net" were the following: (i) gain on acquisition of Mema amounting to P22 in 2022 (Note 13); (ii) rental income amounting to P63 each in 2022, 2021 and 2020 (Note 30); (iii) gain on sale of fixed asset amounting to P95 in 2020; (iv) other income due to rent concession amounting to P23 in 2020.

28. Income Taxes

Deferred tax assets and liabilities are from the following:

2022

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31
Net retirement benefits liability	**P1,883**	**(P135)**	**P162**	**P1,910**
Rental	**1,262**	**283**	**(161)**	**1,384**
NOLCO	**7,793**	**(1,068)**	**-**	**6,725**
Various allowances, accruals and others	**509**	**224**	**-**	**733**
Inventory differential	**(172)**	**823**	**-**	**651**
MCIT	**689**	**(181)**	**-**	**508**
ARO	**444**	**75**	**-**	**519**
Unutilized tax losses	**402**	**51**	**-**	**453**
Fair market value adjustments on business combination	**(27)**	**-**	**-**	**(27)**
Unrealized foreign exchange gains - net	**(240)**	**280**	**(18)**	**22**
Capitalized taxes and duties on inventories deducted in advance	**(764)**	**(84)**	**-**	**(848)**
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	**(3,605)**	**81**	**-**	**(3,524)**
Excess of double-declining over straight-line method of depreciation and amortization	**(9,786)**	**(509)**	**-**	**(10,295)**
	(P1,612)	**(P160)**	**(P17)**	**(P1,789)**

2021

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31
Net retirement benefits liability	P2,195	(P118)	(P194)	P -	P1,883
Rental	1,589	(253)	(74)	-	1,262
NOLCO	8,847	(1,054)	-	-	7,793
Various allowances, accruals and others	868	(350)	-	(9)	509
Inventory differential	73	(245)	-	-	(172)
MCIT	491	198	-	-	689
ARO	298	146	-	-	444
Unutilized tax losses	358	44	-	-	402
Fair market value adjustments on business combination	(28)	1	-	-	(27)
Unrealized foreign exchange gains - net	(984)	808	(64)	-	(240)
Capitalized taxes and duties on inventories deducted in advance	(1,234)	470	-	-	(764)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(4,307)	702	-	-	(3,605)
Excess of double-declining over straight-line method of depreciation and amortization	(9,060)	(726)	-	-	(9,786)
	(P894)	(P377)	(P332)	(P9)	(P1,612)

2020

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31
Net retirement benefits liability	P2,157	(P153)	P191	P -	P2,195
Rental	1,364	225	-	-	1,589
NOLCO	1,286	7,561	-	-	8,847
Various allowances, accruals and others	789	66	-	13	868
Inventory differential	649	(576)	-	-	73
MCIT	491	-	-	-	491
ARO	278	20	-	-	298
Unutilized tax losses	237	121	-	-	358
Fair market value adjustments on business combination	(30)	2	-	-	(28)
Unrealized foreign exchange gains - net	(158)	(826)	-	-	(984)
Unrealized fair value losses (gains) on financial assets at FVOCI	-	30	(30)	-	-
Capitalized taxes and duties on inventories deducted in advance	(1,402)	168	-	-	(1,234)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(4,609)	302	-	-	(4,307)
Excess of double-declining over straight-line method of depreciation and amortization	(7,138)	(1,922)	-	-	(9,060)
	(P6,086)	P5,018	P161	P13	(P894)

The above amounts are reported in the consolidated statements of financial position as follows:

	2022	2021
Deferred tax assets - net	**P1,812**	P2,172
Deferred tax liabilities - net	**(3,601)**	(3,784)
	(P1,789)	(P1,612)

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2022	2021	2020
Current	**P1,244**	P784	P220
Deferred	**160**	377	(5,018)
	P1,404	P1,161	(P4,798)

As of December 31, 2022, the NOLCO and MCIT of the Parent Company that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
2020	December 31, 2025	**P25,209**	**P -**
2021	December 31, 2026	**1,678**	**198**
2022	December 31, 2025	**-**	**310**
		P26,887	**P508**

As of December 31, 2021, the NOLCO and MCIT of the Parent Company that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2019	December 31, 2022	P4,272	P491
2020	December 31, 2025	25,209	-
2021	December 31, 2026	1,678	198
		P31,159	P689

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	2022	2021	2020
Statutory income tax rate	**25.00%**	25.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Adjustment to income tax rate due to CREATE	**-**	(1.96%)	-
Interest income subjected to lower final tax	**(0.11%)**	(0.07%)	0.14%
Nontaxable income	**(7.17%)**	(4.67%)	0.33%
Nondeductible expense	**(8.39%)**	(4.46%)	1.49%
Nondeductible interest expense	**0.09%**	0.04%	(0.05%)
Excess of optional standard deduction over deductible expenses	**-**	(0.17%)	0.07%
Write-off of NOLCO/MCIT	**7.52%**	-	-
Others, mainly income subject to different tax rates	**0.40%**	1.47%	(2.38%)
Effective income tax rate	**17.34%**	15.18%	29.60%

OSD

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made (Note 4).

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

The CREATE Act, which seeks to reduce the corporate income tax rates and rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Group are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE Law are as follows:

	Increase (decrease)
ASSETS	
Prepaid expenses and other current assets	P4
Deferred tax assets	(224)
	(P220)
LIABILITIES	
Deferred tax liabilities	P28
	28
EQUITY	
Equity reserves	366
Retained earnings	(174)
	192
	(P220)
INCOME TAX EXPENSE	
Current	(P4)
Deferred	(170)
	(P174)

29. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. The Group requires approval of the BOD for certain limits on the amount and extent of transactions with related parties.

Amounts owed by/owed to related parties are collectible/to be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	*8, 31, a*	**2022**	**P58**	**P -**	**P894**	**P -**	On demand; interest bearing	Unsecured; no impairment
		2021	78	-	1,138	-		
		2020	93	-	1,543	-		
	a	**2022**	**-**	**-**	**-**	**-**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	-	-	-		
		2020	-	-	19	-		
Intermediate Parent	*b, e, f, h, i*	**2022**	**20**	**207**	**16**	**453**	On demand; non-interest bearing	Unsecured; no impairment
		2021	18	167	17	333		
		2020	7	174	11	251		
Under Common Control	*14, b, c, d, h, i, j, k l, m*	**2022**	**16,473**	**4,625**	**6,278**	**2,178**	On demand; non-interest bearing	Unsecured; no impairment
		2021	7,705	4,095	2,584	2,307		
		2020	4,443	4,445	1,097	1,918		
	m	**2022**	**-**	**35**	**-**	**3,345**	On demand; interest bearing	Unsecured; no impairment
		2021	-	-	-	-		
		2020	-	-	-	-		
Associate	*b, h. l, k*	**2022**	**200**	**100**	**90**	**56**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	159	283	101		
		2020	-	-	-	-		
Joint Ventures	*c, g, h*	**2022**	**-**	**-**	**2**	**-**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	-	2	-		
		2020	-	-	4	-		
Associates and Joint Ventures under Common Control	*b, h, n*	**2022**	**365**	**-**	**71**	**19**	On demand; non-interest bearing	Unsecured; no impairment
		2021	206	-	45	3		
		2020	321	-	60	5		
	n	**2022**	**-**	**101**	**-**	**2,865**	Short-term; interest bearing	Unsecured; no impairment
		2021	-	64	-	2,000		
		2020	-	137	-	3,183		
		2022	**P17,116**	**P5,068**	**P7,351**	**P8,916**		
		2021	P8,007	P4,485	P4,069	P4,744		
		2020	P4,864	P4,756	P2,734	P5,357		

a. As of December 31, 2022 and 2021, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 31).

b. Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.

c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.

d. The Parent Company entered into various lease agreements with San Miguel Properties, Inc. for office space covering 6,747 square meters and certain parcel of lands where service stations are located.

e. The Parent Company has existing lease agreements with SMC covering certain parcel of lands where service stations are located.

f. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

g. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.

h. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

i. Amounts owed to related parties consist of trade and non-trade payables.

j. In 2015, NVRC leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.

k. On February 4, 2021, Petrogen became an associate of the Parent Company as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares in Petrogen (Note 14).

l. On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition of the Treats convenience store business by the Group was executed, for an aggregate purchase price of P68.

m. Amounts owed to entities under common control include interest-bearing advances from San Miguel Insurance Company Ltd.

n. Amounts owed to associate of entities under common control include interest-bearing short-term loans payable to Bank of Commerce.

o. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follows (Note 25):

	2022	2021	2020
Salaries and other short-term employee benefits	**P906**	P749	P741
Retirement benefits costs - defined benefit plan	**139**	104	109
Retirement benefits costs - defined contribution plan	**35**	31	33
	P1,080	P884	P883

30. Lease Commitments

Group as Lessee

The Group entered into commercial leases on office space, buildings, machinery and equipment, service stations and certain parcels of land for its refinery and service stations (Note 11, 12 and 32). These leases' life ranges from one to 999 years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Amounts recognized in profit or loss:

	Note	**2022**	2021	2020
Interest on lease liabilities	*11*	**P1,065**	P1,070	P1,115
Income from sub-leasing		**(1,275)**	(796)	(1,054)
Income from rent concession	*27*	**-**	-	(23)
Expenses relating to the variable portion of lease payments		**4**	4	3
Expenses relating to short-term leases		**511**	314	251
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		**10**	8	13
		P315	P600	P305

Rent expense amounting to P18 is included in cost of goods sold - others in 2022, P14 in 2021 and P13 in 2020 (Note 23). Interest expense amounting to P49 was capitalized as part of property, plant and equipment in 2022, P64 in 2021 while P85 in 2020 (Note 10).

Amounts recognized in consolidated statements of cashflows:

	Note	**2022**	2021	2020
Interest paid under operating activities	*34*	**P336**	P310	P344
Cash outflows for short term and low value lease		**525**	326	267
Principal lease payments under financing activities	*34*	**2,347**	2,226	2,361

Group as Lessor - Operating Lease

The Group has entered into lease agreements on its service stations and other related structures. The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

The following table sets out a maturity analysis of lease payments, showing undiscounted lease payments to be received after the reporting period.

	2022	2021
Less than one year	**P1,099**	P992
One to two years	**657**	520
Two to three years	**361**	318
Three to four years	**280**	275
Four to five years	**270**	267
More than five years	**2,456**	2,632
	P5,123	P5,004

Rent income recognized in profit or loss amounted to:

	Note	**2022**	2021	2020
Other operating income		**P1,538**	P1,273	P1,047
Others - net	*27*	**63**	63	63
		P1,601	P1,336	P1,110

31. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in consolidated statements of income and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2022. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Net Defined Benefit Retirement Asset (Liability)		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Balance at beginning of year	**(P4,486)**	(P4,864)	(P4,738)	**P1,027**	P1,056	P1,083	**(P3,459)**	(P3,808)	(P3,655)
Recognized in Profit or Loss									
Current service cost	**(263)**	(289)	(289)	**-**	-	-	**(263)**	(289)	(289)
Past service cost - plan amendment*	**(104)**	-	-	**-**	-	-	**(104)**	-	-
Interest expense	**(225)**	(201)	(241)	**-**	-	-	**(225)**	(201)	(241)
Interest income	**-**	-	-	**73**	56	100	**73**	56	100
	(592)	(490)	(530)	**73**	56	100	**(519)**	(434)	(430)
Recognized in Other Comprehensive Income									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	**(127)**	(77)	(64)	**-**	-	-	**(127)**	(77)	(64)
Changes in financial assumptions	**267**	235	(64)	**-**	-	-	**267**	235	(64)
Changes in demographic assumptions	**2**	29	138	**-**	-	-	**2**	29	138
Return on plan asset excluding interest	**-**	-	-	**(768)**	(784)	(641)	**(768)**	(784)	(641)
	142	187	10	**(768)**	(784)	(641)	**(626)**	(597)	(631)
Others									
Benefits paid	**476**	711	357	**(359)**	(611)	(301)	**117**	100	56
Contributions	**-**	-	-	**1,200**	1,310	815	**1,200**	1,310	815
Translation adjustment	**(40)**	(30)	37	**-**	-	-	**(40)**	(30)	37
	436	681	394	**841**	699	514	**1,277**	1,380	908
Balance at end of year	**(P4,500)**	(P4,486)	(P4,864)	**P1,173**	P1,027	P1,056	**(P3,327)**	(P3,459)	(P3,808)

**In 2022, the Parent Company added disability benefit for employees hired before January 1, 2022 resulting in the recognition of past service cost.*

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	Note	**2022**	2021
Trade and other payables	*18*	**P66**	P132
Retirement benefits liability (noncurrent portion)		**3,261**	3,327
		P3,327	P3,459

Retirement benefits costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P294, P212 and P214 in 2022, 2021 and 2020, respectively, including past service cost on plan amendment amounting to P104 in 2022.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P73, P77 and P75 in 2022, 2021 and 2020, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2022 and 2021.

Plan assets consist of the following:

	2022	2021
Shares of stock:		
Quoted	**63%**	72%
Unquoted	**15%**	12%
Government securities	**13%**	11%
Cash and cash equivalents	**5%**	4%
Others	**4%**	1%
	100%	100%

Investment in Shares of Stock. As of December 31, 2022 and 2021, the Group's plan assets include 459,156,097 common shares of Petron with fair market value per share of P2.40 and P3.17 as of December 31, 2022 and 2021, respectively, and 14,250,900 common shares of SMC with fair market value per share of P92.95 and P114.90 as of December 31, 2022 and 2021, respectively.

The Parent Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P666, P565 and P451 in 2022, 2021 and 2020, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P15 in 2022, P20 in 2021 and P66 in 2020.

Government Securities represents debt instruments issued by sovereign government mainly held by two trustee banks of the plan.

Others include receivables, unit investment trust funds, and debt instruments which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P515 to its defined benefit retirement plan in 2023.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Risk. The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

Longevity and Salary Risks. The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2022	2021	2020
Discount rate	**5.00% to 7.41%**	5.00% to 5.20%	3.95% to 5.00%
Future salary increases	**5.00% to 6.50%**	4.00% to 5.75%	4.00% to 5.75%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5 to 15 years as of December 31, 2022 and 6 to 17 years as of December 31, 2021.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

	Defined Benefit Liabilities	
2022	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P268)**	**P275**
Salary increase rate	**315**	**(281)**

	Defined Benefit Liabilities	
2021	1 Percent Increase	1 Percent Decrease
Discount rate	(P99)	P138
Salary increase rate	324	(288)

The Parent Company has advances to PCERP amounting to P894 and P1,138 as of December 31, 2022 and 2021, respectively, included as part of “Trade and other receivables - net” account in the consolidated statements of financial position (Notes 8 and 29). The advances are subject to interest of 5% in 2022 and 2021 (Note 29).

In 2022 and in 2021, portion of the Parent Company’s interest-bearing advances to PCERP were converted into contribution to the retirement plan (Note 29).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2022 and 2021 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2022, 2021 and 2020.

32. Significant Agreements

Supply Agreements. The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron’s crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter’s standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) and/or Khafji Crude Oil (Khafji) at pricing based on latter’s standard KEC/Khafji prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice while the contract with KPC is from July 1, 2022 to June 30, 2023.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 52% of crude and condensate volume processed in 2022 are from EMEPMI with balance of around 48% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of “Liabilities for crude oil and petroleum products” account in the consolidated statements of financial position as of December 31, 2022 and 2021 (Note 17).

Toll Service Agreement with Innospec Limited (Innospec). PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P110, P96 and P97 in 2022, 2021 and 2020, respectively.

Lease Agreements with Philippine National Oil Company (PNOC). On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P191, starting 2017, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised every fifth year in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as at December 31, 2022 and 2021, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 40).

33. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share amounts are computed as follows:

	2022	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	**P5,727**	P5,369	(P11,380)
Dividends on preferred shares for the year	**(1,044)**	(1,899)	(1,578)
Distributions to the holders of capital securities	**(4,545)**	(3,037)	(1,816)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P138**	P433	(P14,774)
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**P0.01**	P0.05	(P1.58)

As of December 31, 2022, 2021 and 2020, the Parent Company has no potential dilutive debt or equity instruments.

34. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2022	2021	2020
Decrease (increase) in assets:			
Trade and other receivables	**(P25,890)**	(P24,308)	P16,401
Inventories	**(16,265)**	(22,104)	27,456
Other assets	**(4,915)**	1,923	(2,260)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	**(458)**	17,929	(16,216)
Trade and other payables and others	**9,146**	(2,742)	(12,943)
	(38,382)	(29,302)	12,438
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, and others	**74**	(20)	(407)
	(P38,308)	(P29,322)	P12,031

b. Changes in liabilities arising from financing activities:

	Dividends Payable	Lease Liabilities	Advances from a Related Party	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2022	P829	P15,555	P -	P109,196	P102,645	P228,225
Changes from financing cash flows:						
Payment of principal	-	(2,347)	-	-	-	(2,347)
Proceeds from availment of loans/advances	-	-	3,362	325,620	44,953	373,935
Payments of loans	-	-	-	(298,315)	(44,339)	(342,654)
Dividends and distributions declared	5,768	-	-	-	-	5,768
Dividends and distributions paid	(6,127)	-	-	-	-	(6,127)
Total changes from financing cash flows	(359)	(2,347)	3,362	27,305	614	28,575
New leases	-	642	-	-	-	642
Interest expense	-	1,453	-	-	-	1,453
Interest paid	-	(336)	-	-	-	(336)
Effects of changes in foreign exchange rates	-	127	-	1,385	3,200	4,712
Other charges	-	-	-	-	602	602
Balance as of December 31, 2022	P470	P15,094	P3,362	P137,886	P107,061	P263,873

	Dividends Payable	Lease Liabilities	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2021	P505	P15,804	P77,704	P119,454	P213,467
Changes from financing cash flows:					
Payment of principal	-	(2,226)	-	-	(2,226)
Proceeds from availment of loans	-	-	209,285	17,772	227,057
Payments of loans	-	-	(178,210)	(37,221)	(215,431)
Dividends and distributions declared	4,978	-	-	-	4,978
Dividends and distributions paid	(4,655)	-	-	-	(4,655)
Total changes from financing cash flows	323	(2,226)	31,075	(19,449)	9,723
New leases	-	843	-	-	843
Interest expense	-	1,376	-	-	1,376
Interest paid	-	(310)	-	-	(310)
Effects of changes in foreign exchange rates	-	68	417	2,026	2,511
Other charges	-	-	-	614	614
Balance as of December 31, 2021	P828	P15,555	P109,196	P102,645	P228,224

35. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as to partly fund capital expenditures. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables, which are generated directly from its operations.

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan, respectively.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The BOD regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

Risk Management Structure
The Group follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

The Group's risk management process is a bottom-up approach, with each risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Group's operation is an integrated value chain, risks emanate from every process, while some could cut across groups. The results of these activities flow up to the Management Committee and, eventually, the BOD through the Group's annual business planning process.

Oversight and technical assistance is likewise provided by corporate units and committees with special duties. These groups and their functions are:

a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

b. The Treasurers Department, which is in charge of foreign currency hedging transactions.

c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.

d. The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.

e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.

g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

The BOD also created separate positions and board-level entities with explicit authority and responsibility in managing and monitoring risks, as follows:

a. The Audit Committee is responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

   The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.

c. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

Foreign Currency Risk

The Parent Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposures to foreign currency risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Group maintains a level of US dollar-denominated assets and liabilities during the year. Foreign currency risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

In addition, starting March 31, 2012, the Group's exposure to foreign currency risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of Petron Malaysia whose transactions are in Malaysian ringgit, which are subsequently converted into US dollar before ultimately translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation.

The Group pursues a policy of mitigating foreign currency risk by entering into hedging transactions or by substituting US dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Group is allowed to engage in active risk management strategies for a portion of its foreign currency risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

The Group assesses the existence of an economic relationship between the hedged item and the hedging instrument based on the currency, amount, and timing of their respective cash flows. For derivatives designated in a hedging relationship, the Group determines whether the derivatives are expected to be highly effective in offsetting the changes in the cash flows of the hedged item using the cumulative dollar-offset method. The dollar-offset method approximates the changes in the fair value of the hedged item using a hypothetical derivative which mirrors the terms of the derivative used as hedging instrument.

For currency hedges, the Group maintains a 1:1 hedge ratio since a similar amount of hedging instrument is expected to offset the changes in the cash flows of the hedged item. The main sources of ineffectiveness are:

a. the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the exchange rates; and

b. changes in the timing of the hedged transactions.

The Group is exposed to foreign currency risk of its short-term loans and US dollar-denominated sales and purchases. On the other hand, both foreign currency and interest rate risks arise in the Group's long-term debts. The Group determined that foreign currency risk is a separately identifiable and measurable risk component eligible for designation since it is caused by fluctuations in US dollar to Philippine peso exchange rates and benchmark closing prices used to measure the fluctuations are available in the market.

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2022		2021	
	US Dollar (in millions)	**Phil. Peso Equivalent**	US Dollar (in millions)	Phil. Peso Equivalent
Assets				
Cash and cash equivalents	**566**	**31,576**	569	29,012
Trade and other receivables	**676**	**37,701**	522	26,624
Other assets	**25**	**1,383**	16	815
	1,267	**70,660**	1,107	56,451
Liabilities				
Short-term loans	**279**	**15,531**	294	14,989
Liabilities for crude oil and petroleum products	**844**	**47,122**	793	40,465
Long-term debts (including current maturities)	**691**	**38,521**	880	44,859
Other liabilities	**311**	**17,344**	538	27,416
	2,125	**118,518**	2,505	127,729
Net foreign currency-denominated monetary liabilities	**(858)**	**(47,858)**	(1,398)	(71,278)

The Group incurred net foreign currency gains (losses) amounting to (P3,678), (P1,242) and P2,363 in 2022, 2021 and 2020, respectively (Note 27), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 27). The foreign currency rates from Philippine peso (PhP) to US dollar (US$) as of December 31 are shown in the following table:

	Php to US$
December 31, 2022	55.755
December 31, 2021	50.999
December 31, 2020	48.023

Managing of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings and equity reserves arising from increases or decreases in unrealized and realized foreign currency gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2022 and 2021:

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
2022	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P422)**	**(P461)**	**P422**	**P461**
Trade and other receivables	**(146)**	**(706)**	**146**	**706**
Other assets	**(17)**	**(21)**	**17**	**21**
	(585)	**(1,188)**	**585**	**1,188**
Short-term loans	**-**	**279**	**-**	**(279)**
Liabilities for crude oil and petroleum products	**449**	**1,196**	**(449)**	**(1,196)**
Long-term debts (including current maturities)	**691**	**518**	**(691)**	**(518)**
Other liabilities	**51**	**309**	**(51)**	**(309)**
	1,191	**2,302**	**(1,191)**	**(2,302)**
	P606	**P1,114**	**(P606)**	**(P1,114)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
2021	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P416)	(P465)	P416	P465
Trade and other receivables	(56)	(509)	56	509
Other assets	(11)	(13)	11	13
	(483)	(987)	483	987
Short-term loans	-	294	-	(294)
Liabilities for crude oil and petroleum products	380	1,059	(380)	(1,059)
Long-term debts (including current maturities)	880	660	(880)	(660)
Other liabilities	13	174	(13)	(174)
	1,273	2,187	(1,273)	(2,187)
	P790	P1,200	(P790)	(P1,200)

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on consolidated statements of income.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported consolidated statements of income, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P385 and P449 in 2022 and 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2022 and 2021, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2022	**<1 Year**	**1 - <2 Years**	**2 - <3 Years**	**3 - <4 Years**	**4 - <5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P11,642**	**P19,057**	**P22,425**	**P3,000**	**P13,752**	**P -**	**P69,876**
Interest rate	**4.5% - 7.5%**	**4.6% - 7.8%**	**3.4% - 8.1%**	**7.2% - 7.5%**	**4.3% - 7.5%**	**-**	**-**
Floating Rate							
US$ denominated (expressed in Php)	**-**	**10,290**	**7,885**	**7,885**	**7,885**	**-**	**33,945**
Interest rate*		**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**		
JP¥ denominated (expressed in Php)	**1,830**	**1,830**	**915**	**-**	**-**	**-**	**4,575**
Interest rate*	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**				
	P13,472	**P31,177**	**P31,225**	**P10,885**	**P21,637**	**P -**	**P108,396**

**The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.*

2021	<1 Year	1 - <2 Years	2 - <3 Years	3 - <4 Years	4 - <5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P6,892	P10,393	P16,058	P16,425	P -	P9,000	P58,768
Interest rate	4.59% - 5.8%	4.59% - 5.5%	4.59% - 7.8%	4.59% - 8.1%	-	4.30%	-
Floating Rate							
US$ denominated (expressed in Php)	13,078	19,307	5,828	-	-	-	38,213
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin				
JP¥ denominated (expressed in Php)	1,899	1,899	1,899	949	-	-	6,646
Interest rate*	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin			
	P21,869	P31,599	P23,785	P17,374	P -	P9,000	P103,627

**The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.*

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Trade Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	Note	**2022**	2021
Cash in banks and cash equivalents	*5*	**P35,819**	P35,318
Derivative assets	*6*	**1,438**	740
Trade and other receivables - net	*8*	**81,979**	51,745
Noncurrent deposits	*15*	**127**	128
		P119,363	P87,931

Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

Cash and cash equivalents, derivative assets and noncurrent deposits are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents, derivative assets and noncurrent deposits has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents, derivative assets and noncurrent deposits have low credit risk based on the external credit ratings of its counterparties.

Investments in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments and only with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Trade and Other Receivables and Long-Term Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 38.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer’s nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2022 and 2021:

	Trade Accounts Receivables Per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2022				
Retail	**P1,701**	**P3,338**	**P1,052**	**P6,091**
Lubes	**630**	**196**	**59**	**885**
Gasul	**794**	**328**	**164**	**1,286**
Industrial	**21,581**	**2,891**	**5,693**	**30,165**
Others	**13,670**	**6,457**	**645**	**20,772**
	P38,376	**P13,210**	**P7,613**	**P59,199**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2021				
Retail	P2,464	P1,561	P445	P4,470
Lubes	571	72	2	645
Gasul	955	118	113	1,186
Industrial	7,485	7,110	2,509	17,104
Others	8,460	3,417	107	11,984
	P19,935	P12,278	P3,176	P35,389

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P5,416 and P4,720 as of December 31, 2022 and 2021, respectively. These securities may only be called on or applied upon default of customers.

Risk Concentration. The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

The table below presents the summary of the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2022					
	Financial Assets at Amortized Cost					
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash in banks and cash equivalents	**P35,819**	**P -**	**P -**	**P -**	**P -**	**P35,819**
Trade and other receivables	**-**	**81,979**	**926**	**-**	**-**	**82,905**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**1,257**	**-**	**1,257**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**181**	**181**
Long-term receivables - net	**-**	**-**	**325**	**-**	**-**	**325**
Noncurrent deposits	**127**	**-**	**-**	**-**	**-**	**127**
	P35,946	**P81,979**	**P1,251**	**P1,257**	**P181**	**P120,614**

	2021					
	Financial Assets at Amortized Cost					
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash in banks and cash equivalents	P35,318	P -	P -	P -	P -	P35,318
Trade and other receivables	-	51,745	1,028	-	-	52,773
Derivative assets not designated as cash flow hedge	-	-	-	687	-	687
Derivative assets designated as cash flow hedge	-	-	-	-	53	53
Investments in debt instruments	-	-	-	-	-	-
Long-term receivables - net	-	-	315	-	-	315
Noncurrent deposits	128	-	-	-	-	128
	P35,446	P51,745	P1,343	P687	P53	P89,274

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2022 and 2021.

2022	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P37,183**	**P37,183**	**P37,183**	**P -**	**P -**	**P -**
Trade and other receivables	**81,979**	**81,979**	**81,979**	**-**	**-**	**-**
Derivative assets (including non-current portion)	**1,438**	**1,438**	**1,401**	**37**	**-**	**-**
Proprietary membership shares	**352**	**352**	**352**	**-**	**-**	**-**
Noncurrent deposits	**127**	**127**	**-**	**-**	**-**	**127**
Financial Liabilities						
Short-term loans	**137,886**	**139,058**	**139,058**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**51,067**	**51,067**	**51,067**	**-**	**-**	**-**
Trade and other payables*	**13,344**	**13,344**	**13,344**	**-**	**-**	**-**
Derivative liabilities (including non-current portion)	**723**	**723**	**723**	**-**	**-**	**-**
Long-term debts (including current maturities)	**107,061**	**125,710**	**20,123**	**35,913**	**69,674**	**-**
Lease liability (including current portion)	**15,094**	**24,534**	**2,138**	**2,015**	**5,486**	**14,895**
Cash bonds	**420**	**420**	**-**	**403**	**17**	**-**
Cylinder deposits	**736**	**736**	**-**	**-**	**-**	**736**
Other noncurrent liabilities**	**45**	**46**	**-**	**6**	**24**	**16**

**excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others*
***excluding cash bonds, cylinder deposits and derivative liabilities*

2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P36,406	P36,406	P36,406	P -	P -	P -
Trade and other receivables	51,745	51,745	51,745	-	-	-
Derivative assets (including non-current portion)	740	740	707	19	14	-
Proprietary membership shares	298	298	298	-	-	-
Noncurrent deposits	128	128	-	-	3	125
Financial Liabilities						
Short-term loans	109,196	109,474	109,474	-	-	-
Liabilities for crude oil and petroleum products	42,641	42,641	42,641	-	-	-
Trade and other payables*	7,598	7,598	7,598	-	-	-
Derivative liabilities (including non-current portion)	1,022	1,022	997	23	2	-
Long-term debts (including current maturities)	102,645	114,995	26,448	34,870	44,371	9,306
Lease liability (including current portion)	15,555	25,320	2,146	2,047	5,442	15,685
Cash bonds	450	450	14	419	17	-
Cylinder deposits	687	687	-	-	-	687
Other noncurrent liabilities**	38	38	-	4	17	17

**excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others*
***excluding cash bonds, cylinder deposits and derivative liabilities*

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the CRMD is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk
The Group's market price risk arises from its investments carried at fair value (FVPL and certain debt instruments at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management
The Group's capital management policies and programs aim to provide an optimal capital structure that would ensure the Group's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds.

An enterprise resource planning system is used to monitor and forecast the Group's overall financial position. The Group regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Group monitors capital via carrying amount of equity as shown in the consolidated statements of financial position. The Group's capital for the covered reporting period is summarized below:

	2022	2021
Total assets	**P460,071**	P407,420
Total liabilities	**346,521**	296,507
Total equity	**113,550**	110,913
Debt to equity ratio	**3.1:1**	2.7:1
Assets to equity ratio	**4.1:1**	3.7:1

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally-imposed capital requirements.

36. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*5*	**P37,183**	**P37,183**	P36,406	P36,406
Trade and other receivables	*8*	**81,979**	**81,979**	51,745	51,745
Noncurrent deposits	*15*	**127**	**127**	128	128
FA at amortized cost		**119,289**	**119,289**	88,279	88,279
Derivative assets designated as cash flow hedge	*6*	**181**	**181**	53	53
FA at FVOCI		**181**	**181**	53	53
Financial assets at FVPL	*6*	**352**	**352**	298	298
Derivative assets not designated as cash flow hedge	*6, 15*	**1,257**	**1,257**	687	687
FA at FVPL		**1,609**	**1,609**	985	985
Total financial assets		**P121,079**	**P121,079**	P89,317	P89,317

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	*16*	**P137,886**	**P137,886**	P109,196	P109,196
Liabilities for crude oil and petroleum products	*17*	**51,067**	**51,067**	42,641	42,641
Trade and other payables*	*18*	**13,344**	**13,344**	7,598	7,598
Long-term debt including current portion	*19*	**107,061**	**107,061**	102,645	102,645
Derivative liabilities designated as cash flow hedge	*21*	**-**	**-**	116	116
Cash bonds	*21*	**420**	**420**	450	450
Cylinder deposits	*21*	**736**	**736**	687	687
Other noncurrent liabilities**	*21*	**45**	**45**	40	40
Other FL		**310,559**	**310,559**	263,373	263,373
Derivative liabilities not designated as cash flow hedge		**723**	**723**	906	906
Total financial liabilities		**P311,282**	**P311,282**	P264,279	P264,279

**excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others*
***excluding cash bonds, cylinder deposits and derivative liabilities*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Advances to Subsidiaries and a Joint Venture. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of the advances to subsidiaries and a joint venture, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties. The fair values of derivative instruments designated as cash flow hedges are computed by discounting the future cash flows and using the valuation model based on applicable market rates of similar instruments.

Financial Assets at FVPL. The fair values of publicly traded instruments and similar investments are based on published market prices.

Long-term Debt - Floating Rate. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair value.

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2022 and 2021 are same at 7.54%.

Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables. The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value due to the relatively short-term maturities of these financial instruments.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges (Note 35).

	Maturity			
December 31, 2022	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign Currency and Interest Rate Risk				
Cross Currency Swap				
Notional amount	**US$20**	**US$10**	**US$ -**	**US$30**
Average strike rate	**P47.00 to P56.50**	**P47.00 to P56.50**	**P -**	**-**
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**-**	**-**
Interest Rate Risk				
Interest Rate Collar				
Notional amount	**US$30**	**US$15**	**US$ -**	**US$45**
Interest rate	**0.44% to 1.99%**	**0.44% to 1.99%**	**-**	**-**

December 31, 2021	Maturity: 1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign Currency Risk				
Call Spread Swaps				
Notional amount	US$40	US$ -	US$ -	US$40
Average strike rate	P51.96 to P54.47	P -	P -	-
Foreign Currency and Interest Rate Risk				
Cross Currency Swap				
Notional amount	US$20	US$20	US$10	US$50
Average strike rate	P47.00 to P57.00	P47.00 to P56.50	P47.00 to P56.50	-
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	-
Interest Rate Risk				
Interest Rate Collar				
Notional amount	US$15	US$30	US$15	US$60
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	-

The table below summarizes the amounts pertaining to the designated hedged item.

December 31, 2022	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign Currency Risk			
US dollar-denominated loan	**P -**	**P -**	**P -**
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	**(118)**	**21**	**(17)**
Interest Rate Risks			
US dollar-denominated loan	**(63)**	**47**	**-**

December 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign Currency Risk			
US dollar-denominated loan	(P8)	P -	P6
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	67	(72)	65
Interest Rate Risks			
US dollar-denominated loan	4	(3)	-

There are no balances remaining in the hedging reserve from hedging relationship for which hedge accounting is no longer applied.

The table below summarizes the amounts pertaining to the designated hedging instrument as of December 31, 2022 and 2021.

December 31, 2022	**Notional Amount**	**Carrying Amount**		**Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included**	**Changes in the Fair Value of the Hedging Instrument Recognized in OCI**	**Cost of Hedging Recognized in OCI**	**Amount Reclassified from Hedging Reserve to Profit or Loss**	**Amount Reclassified from Cost of Hedging Reserve to Profit or Loss**	**Line Item in the Consolidated Statement of Income Affected by the Reclassification**
		Assets	**Liabilities**						
Foreign Currency Risk									
Call spread swaps	**US$ -**	**P -**	**P -**	**Financial assets at FVPL, Derivative liabilities**	**P -**	**(P20)**	**P -**	**P13**	**Other income (expenses) - net**
Foreign Currency and Interest Rate Risks									
Cross currency swap	**30**	**118**	**-**	**Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities**	**118**	**(161)**	**(171)**	**51**	**Interest expense and other financing charges, Other income (expenses) - net**
Interest Rate Risk									
Interest rate collar	**45**	**63**	**-**	**Derivative liabilities, Other noncurrent assets**	**63**	**17**	**-**	**(17)**	**Interest expense and other financing charges**

December 31, 2021	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign Currency Risk									
Call spread swaps	US$40	P20	P12	Financial assets at FVPL, Derivative liabilities	P8	P4	(P28)	P61	Other income (expenses) - net
Foreign Currency and Interest Rate Risks									
Cross currency swap	50	32	99	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(67)	(216)	(276)	168	Interest expense and other financing charges, Other income (expenses) - net
Interest Rate Risk									
Interest rate collar	60	1	5	Derivative liabilities, Other noncurrent assets	(4)	(16)	-	16	Interest expense and other financing charges

No hedging ineffectiveness was recognized in the 2022 and 2021 consolidated statements of income.

The table below provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	December 31, 2022		December 31, 2021	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	**(P75)**	**P71**	(P207)	P54
Changes in fair value:				
Foreign currency risk	**-**	**(20)**	28	4
Foreign currency risk and interest rate risk	**294**	**(161)**	448	(216)
Interest rate risk	**67**	**17**	24	(16)
Amount reclassified to profit or loss:				
Foreign currency risk	**-**	**13**	(28)	61
Foreign currency risk and interest rate risk	**(171)**	**51**	(276)	168
Interest rate risk	**-**	**(17)**	-	16
Income tax effect	**(48)**	**29**	(64)	-
Balance at end of year	**P67**	**(P17)**	(P75)	P71

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Cross Currency Swaps. As of December 31, 2022, the Group has no outstanding cross currency swaps. The net negative fair value of these cross-currency swaps amounted to nil in 2022 and P6 in 2021.

Interest Rate Collar. As of December 31, 2022, the Group has no outstanding interest rate collar. The net negative fair value of this interest rate collar amounted to nil in 2022 and P1 in 2021.

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Currency Forwards. As of December 31, 2022 and 2021, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$894 million and US$698 million, respectively, and with various maturities in 2024 and 2023. As of December 31, 2022 and 2021, the net fair value of these currency forwards amounted to P28 and P330, respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2024 and 2023. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. Total outstanding equivalent notional quantity covered by the commodity swaps were 31.4 million barrels and 24.6 million barrels for 2022 and 2021, respectively. The estimated net receipts/(payouts) for these transactions amounted to P506 and (P543) as of December 31, 2022 and 2021, respectively.

Commodity Options. As of December 31, 2022 and 2021, the Group has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

Embedded Derivatives
Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2022 and 2021, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2022 and 2021, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2022, 2021 and 2020, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P4,673, P315 and (P2,428), respectively (Note 27).

Fair Value Changes on Derivatives not Designated as Cash Flow Hedge
The net movements in the fair value of derivative transactions in 2022 and 2021 are as follows:

	Note	**2022**	2021
Fair value at beginning of year		**(P219)**	(P502)
Net changes in fair value during the year	*27*	**4,673**	315
Fair value of settled instruments		**(3,920)**	(32)
Fair value at end of year		**P534**	(P219)

Fair Value Hierarchy
Financial assets and liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2022 and 2021. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability are not based on observable market data.

	2022	2021
	Level 2	Level 2
Financial Assets		
FVPL	**P352**	P298
Derivative assets	**1,438**	740
Financial Liabilities		
Derivative liabilities	**(723)**	(1,022)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2022 and 2021. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

37. Registration with the Board of Investments (BOI) and the Authority of the Freeport Area of Bataan (AFAB)

BOI

RMP-2 Project. On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the ITH entitlement period ended in June 2020.

AFAB

In December 2021, the Petron Bataan Refinery renewed its registration with the AFAB as a registered enterprise. The registration shall be valid and in effect as long as the registered enterprise remains in good standing or until revoked or cancelled. FAB-registered enterprises are entitled to avail of fiscal incentives under the Special Economic Zone Act of 1995 or the Omnibus Investment Code of 1987 such as (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases, subject to compliance with Bureau of Internal Revenue and AFAB requirements. Further, VAT will only be imposed on the Parent Company as a FAB Registered Enterprise upon the withdrawal of products from the refinery instead of the VAT being payable upon importation of crude oil.

38. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.

c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Malaysia, South Korea, Singapore, Vietnam, Indonesia, and India.

f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions
Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Major Customer
The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2022, 2021 and 2020.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2022						
Revenue:						
External sales	**P854,712**	**P -**	**P1,173**	**P1,221**	**P532**	**P857,638**
Inter-segment sales	**378,045**	**-**	**397**	**-**	**(378,442)**	**-**
Operating income	**18,898**	**-**	**242**	**42**	**31**	**19,213**
Net income	**8,513**	**-**	**137**	**42**	**(1,995)**	**6,697**
Assets and liabilities:						
Segment assets*	**517,953**	**-**	**9,959**	**644**	**(70,297)**	**458,259**
Segment liabilities*	**376,728**	**-**	**4,646**	**131**	**(38,585)**	**342,920**
Other segment information:						
Property, plant and equipment	**168,999**	**-**	**-**	**90**	**1,064**	**170,153**
Depreciation	**11,941**	**-**	**85**	**14**	**(164)**	**11,876**
Interest expense	**13,240**	**-**	**292**	**2**	**(440)**	**13,094**
Interest income	**965**	**-**	**229**	**5**	**(301)**	**898**
Income tax expense	**1,364**	**-**	**41**	**8**	**(9)**	**1,404**

**excluding deferred tax assets and liabilities*
***revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.*
***Ovincor was reclassified to Others from Insurance following the deconsolidation of Petrogen*

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2021						
Revenue:						
External sales	P435,582	P -	P1,153	P906	P416	P438,057
Inter-segment sales	175,205	125	395	-	(175,725)	-
Operating income	16,860	112	240	48	(45)	17,215
Net income	7,749	116	159	48	(1,936)	6,136
Assets and liabilities:						
Segment assets*	457,506	2,891	10,032	612	(65,793)	405,248
Segment liabilities*	318,567	977	4,863	142	(31,826)	292,723
Other segment information:						
Property, plant and equipment	171,029	-	-	93	480	171,602
Depreciation	9,930	-	85	16	(183)	9,848
Interest expense	10,149	-	300	2	(443)	10,008
Interest income	653	4	230	2	(325)	564
Income tax expense	1,141	3	8	7	2	1,161

**excluding deferred tax assets and liabilities*

***revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.*

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2020						
Revenue:						
External sales	P283,885	P -	P1,150	P674	P324	P286,033
Inter-segment sales	86,363	76	415	-	(86,854)	-
Operating income (loss)	(5,401)	53	266	79	374	(4,629)
Net income (loss)	(10,628)	104	155	74	(1,118)	(11,413)
Assets and liabilities:						
Segment assets*	387,619	3,353	9,981	659	(54,077)	347,535
Segment liabilities*	274,483	1,907	4,949	147	(21,040)	260,446
Other segment information:						
Property, plant and equipment	168,289	-	-	109	433	168,831
Depreciation	9,565	-	9	(90)	6	9,490
Interest expense	11,416	-	316	1	(420)	11,313
Interest income	853	30	232	5	(340)	780
Income tax expense	(4,841)	6	61	8	(32)	(4,798)

**excluding deferred tax assets and liabilities*

***revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.*

Inter-segment sales transactions amounted to P376,738, P175,725 and P86,854 for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2022, 2021 and 2020:

	Retail	Lube	Gasul	Industrial	Others	Total
2022						
Revenue	**P395,183**	**P6,403**	**P33,126**	**P156,307**	**P263,693**	**P854,712**
Property, plant and equipment	**7,920**	**27**	**149**	**23**	**160,880**	**168,999**
Capital expenditures	**1,170**	**4**	**0**	**1**	**12,360**	**13,535**
2021						
Revenue	206,337	5,318	24,947	71,354	127,626	435,582
Property, plant and equipment	7,943	32	217	9	162,828	171,029
Capital expenditures	1,363	4	22	1	14,433	15,823
2020						
Revenue	149,406	3,577	20,259	57,889	52,754	283,885
Property, plant and equipment	9,057	37	258	13	158,924	168,289
Capital expenditures	2,382	1	12	-	22,234	24,629

a. revenues from the use of loaned equipment are presented as part of "Retail", "Gasul" and "Industrial"
b. revenues from provisions of technical support are presented as part of "Retail" and "Industrial"
c. revenues from consumer loyalty program are presented as part of "Others"

<u>Geographical Segments</u>

The following table presents segment assets of the Group as of December 31, 2022 and 2021.

	2022	2021
Local	**P349,713**	P311,567
International	**108,546**	93,681
	P458,259	P405,248

<u>Disaggregation of Revenue</u>

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the years ended December 31, 2022, 2021 and 2020.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2022						
Local	**P412,845**	**P -**	**P1,570**	**P1,221**	**(P2,893)**	**P412,743**
Export/international	**819,912**	**-**	**-**	**-**	**(375,017)**	**444,895**
2021						
Local	221,676	4	1,548	906	(912)	223,222
Export/international	390,111	121	-	-	(175,397)	214,835
2020						
Local	165,139	-	1,565	674	(558)	166,820
Export/international	205,109	76	-	-	(85,972)	119,213

***revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.*

39. Events After the Reporting Date

a. Distributions

On January 18, 2023, the Parent Company paid distributions amounting to US$11.50 million (P841) to the holders of the US$500 million SPCS.

On February 10, 2023, the Parent Company paid distributions amounting to US$906 thousand (P49) to the holders of the US$100 million RPS.

On February 27, 2023, the Parent Company paid distributions amounting to US$60 thousand (P3) to the holders of the US$6 million RPS.

b. Partial Redemption of US$500 million of SPCS

On January 19, 2023, the Parent Company redeemed US$22.47 million from the US$500 million SPCS at a purchase price of US$927 per US$1,000 in principal amount.

c. Loan Drawdowns

On January 20, 2023, the Parent Company drew US$30 million from the US$550 million term loan facility to partially prepay its JP¥15 billion term loan facility. Additional US$25 million was drawn on February 3, 2023, to partially prepay the US$800 million term loan facility. The additional drawdowns are amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning November 8, 2024. These are subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

c. On March 6, 2023, the BOD of the Parent Company approved the following:

   i. Public offer and issuance of up to P50,000 preferred shares with features to be determined by the Management.

   ii. Declaration of P0.10/share cash dividends to common stockholders to be paid on April 4, 2023.

40. Other Matters

a. Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted Parent Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Parent Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13 2019, the trial court granted the Parent Company's motion for summary judgment and ordered: (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Parent Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Parent Company of all such properties, and (iii) the payment by the Parent Company to PNOC of the amount of P143, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Parent Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Parent Company all lease payments the latter had paid to PNOC since 1993.

Following the trial court's denial of their separate motions for reconsideration, both PNOC and Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. In a resolution promulgated on October 6, 2022, the Court of Appeals denied the respective motions for reconsideration of Petron and PNOC. In consideration of the possible delay in the final resolution of the case if Petron were to proceed with the filing of a petition for review with the Supreme Court on the issue of rental payments it seeks to recover and the decision in favor of Petron on the rescission of the Deeds of Conveyance and the reconveyance to it of the properties that has been affirmed by the Court of Appeals, Petron has decided to no longer pursue a petition for review with the Supreme Court. The PNOC filed a petition for review on certiorari with the Supreme Court in early December 2022. As of December 31, 2022, Petron is awaiting orders from the Supreme Court.

b. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent company not criminally liable, but the SBMI found the Parent company to have overloaded the vessel. Parent Company has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases were pending as at December 31, 2022. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City (CA). On January 9, 2020, the CA issued a Resolution granting plaintiffs' motion for reconsideration of the earlier resolution denying their petition and ordering the Parent Company to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, the Parent Company filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far. As of December 31, 2022 and 2021, the Group has not set up any provision related to this case consistent with Parent Company's position, as also advised by its counsels, that the Parent Company is not liable for the damages resulting from the oil spill incident because it was only the charterer of the sunken vessel and that it had no control or supervision over the operation of said vessel. Moreover, the environmental damage had already been paid and settled by the International Oil Pollution Compensation Funds (IOPC) where Parent Company makes contribution as a member.

c. Effect of COVID-19 and Impact of Russia-Ukraine War

When the global pandemic started, the Group, being engaged in the fuel business, was affected by the implementation of Enhanced Community Quarantine (ECQ) in the National Capital Region and other key cities in the Philippines and Movement Control Order (MCO) in Malaysia. The reduced economic activities and travel restrictions due to lockdowns in many countries significantly affected volumes of both the Philippine and Malaysia operations.

Globally, oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand disruption caused by the COVID-19 pandemic. Dubai crude plunged from US$64/bbl in January to US$20/bbl in April, posting record low levels in 26 years, which resulted in successive rollbacks in pump prices resulting to substantial net loss of the Group in 2020.

With the Organization of Petroleum Exporting Countries (OPEC) and Russia agreeing to output cuts, recovery in oil prices was seen starting May 2020. From then on international oil prices began to climb steadily. Dubai averaged to about $71/bbl in 2021 as against $42/bbl in 2020.

The gradual opening-up of economies and easing up of pandemic restrictions especially in the West alongside robust vaccination efforts around the world contributed to the recovery of demand reaching pre-pandemic level by the 4th quarter of 2021. On the supply-side, consistent effort of oil producing countries to manage supply also supported the escalation in oil prices amidst several resurgences in COVID-19 cases from new variants.

While the world is already phasing out COVID-19 prevention measures approaching endemic phase in 2022, China continues to impose Zero-Tolerance policy against COVID. China, including its economic centers Beijing and Shanghai, underwent stringent lockdowns to curb the spread of the virus affecting the country's economy which remains under pressure. This caused China's oil demand dropping in 2022 tempering oil prices towards the end of year.

In February 2022, the invasion of Ukraine by Russia resulted to sudden escalation in oil prices with Dubai crude breaching the $100/bbl mark by March 2022 due to the disruption of global oil supply. Amid economic sanctions imposed on Russia and OPEC's efforts to manage production, demand continued to be healthy as most of the countries are already recovering from the pandemic and approaching endemic phase. By June 2022 oil prices soared to a record high $113/bbl. However, by mid of the third quarter, prices began to correct with Dubai averaging $97/bbl in the 3rd quarter and further went down to $85/bbl in the 4th quarter of 2022.

The Group' sales volume for 2022 grew substantially by 37% compared to last year's level. The Group's consolidated revenues almost doubled the 2021 level to P857,636. Despite volatility in the market and elevated costs, the robust refining margins allowed the Group to realize net income of P6,697, 9% higher than last year's net income level.

The extent to which the COVID-19 and Russia-Ukraine war will continue to impact the Group will depend on future developments, including actions taken by OPEC and other oil producing countries and the international community and by the Philippines and internationally by governments, which are highly uncertain and cannot be quantified nor determined at this point.

d. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business financial condition or results of operations.

e. The Group has unused letters of credit totaling approximately P44,127 and P52,251 as of December 31, 2022 and 2021, respectively.

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 16, 2023.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following schedules are the responsibility of the Group's management:

- Supplementary Schedules of Annex 68-J
- Map of the Conglomerate

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not required parts of the consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 16, 2023. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the “Company”) as at and for the years ended December 31, 2022 and 2021, and have issued our report thereon dated March 16, 2023.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the *Reconciliation of Retained Earnings Available for Dividend Declaration* is the responsibility of the Company’s management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2022

Statement of Management's Responsibility for the Consolidated Financial Statements

Report of Independent Auditors on Supplementary Information Filed Separately from the Consolidated Financial Statements

Supplementary Schedules to the Consolidated Financial Statements

Supplementary Schedules of Annex 68 - J		Page No.
A.	Financial Assets	NA[(a)]
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	NA[(b)]
C.	Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D.	Long-term Debt	3
E.	Indebtedness to Related Parties	NA
F.	Guarantees of Securities of Other Issuers	NA
G.	Capital Stock	4

[(a)]Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.
[(b)]Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

Map of the Conglomerate within which the Group belongs

Financial Soundness Indicators

Schedule of Proceeds from Recent Offering of Securities

Report on Independent Auditors on Supplementary Information Filed Separately from the Separate Financial Statements

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2022
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 19,655	P 332,368	P (325,438)	P -	P 26,585	P 26,585	P -	P 26,585
Overseas Ventures Insurance Corporation Ltd.	19	-	(19)	-	-	-	-	-
Petrogen Insurance Corporation	-	-	-	-	-	-	-	-
Petron Freeport Corporation	87	1	(9)	-	79	79	-	79
Petron Singapore Trading Pte., Ltd.	1,675	18,807	(19,014)	-	1,468	1,468	-	1,468
Petron Marketing Corporation	-	-	-	-	-	-	-	-
New Ventures Realty Corporation and Subsidiaries	2,072	653	(850)	-	1,875	75	1,800	1,875
Mema Holdings Inc.	-	899	16	-	915	915	-	915
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	3,314	1,447	(15)	-	4,746	4,746	-	4,746
Petrochemical Asia (Hk) Limited and Subsidiaries	-	-	-	-	-	-	-	-
TOTAL	**P 26,822**	**P 354,175**	**P (345,329)**	**P -**	**P 35,668**	**P 33,868**	**P 1,800**	**P 35,668**

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2022
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 3,791	P 22,003	P (19,409)	P -	P 6,385	P 4,760	P 1,625	P 6,385
Overseas Ventures Insurance Corporation Ltd.	-	565	(6)	-	559	559	-	559
Petrogen Insurance Corporation	-	-	-	-	-	-	-	-
Petron Freeport Corporation	38	-	(9)	-	29	29	-	29
Petron Singapore Trading Pte., Ltd.	22,655	331,407	(325,751)	-	28,311	28,311	-	28,311
Petron Marketing Corporation	17	3	-	-	20	20	-	20
New Ventures Realty Corporation and Subsidiaries	238	53	(42)	-	249	74	175	249
Mema Holdings Inc.	-	141	(110)	-	31	31	-	31
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	-	-	-	-	-	-	-	-
Petrochemical Asia (Hk) Limited and Subsidiaries	83	3	(2)	-	84	84	-	84
TOTAL	**P 26,822**	**P 354,175**	**P (345,329)**	**P -**	**P 35,668**	**P 33,868**	**P 1,800**	**P 35,668**

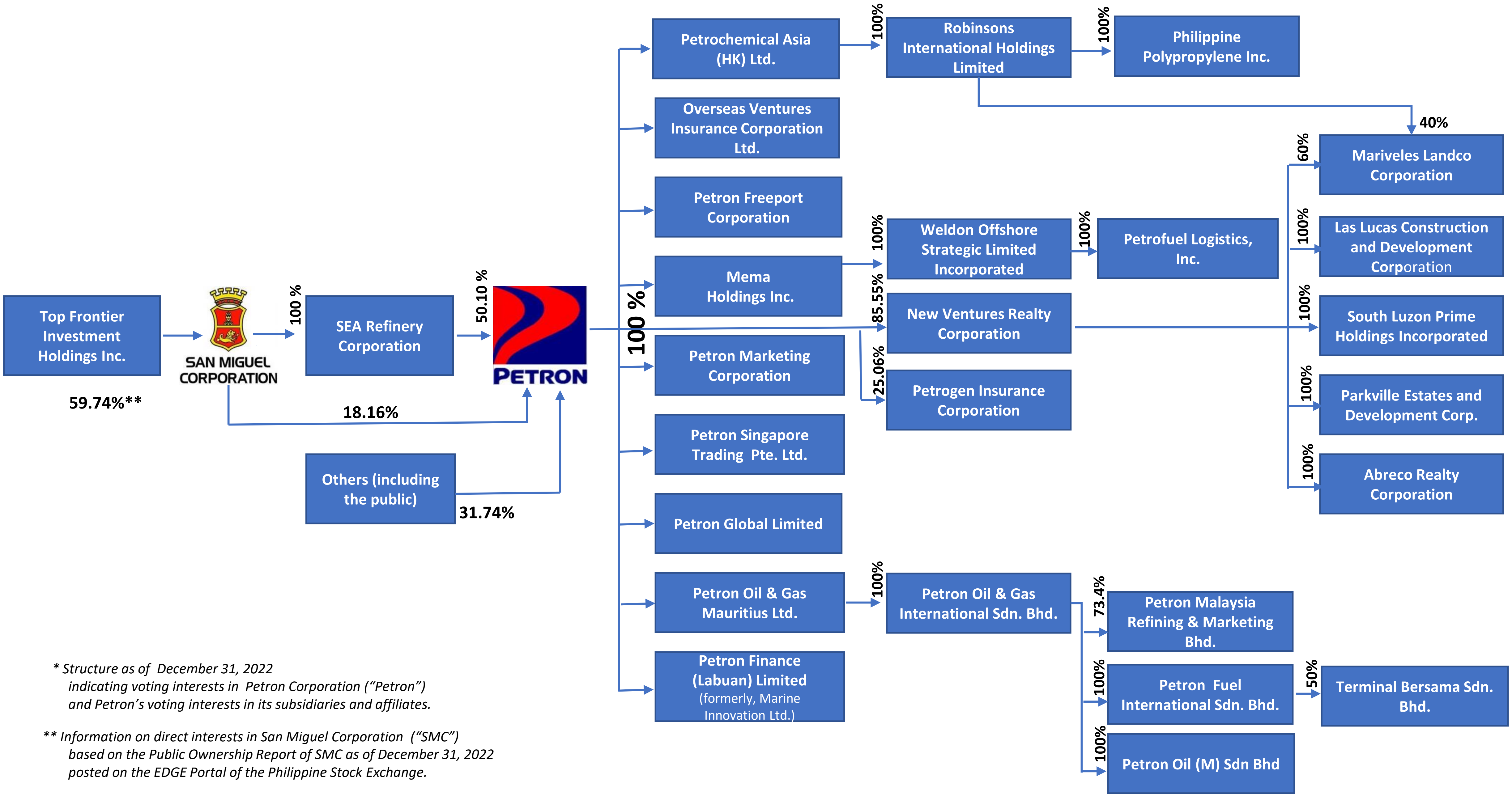
PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2022
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes and bonds:							
Peso denominated:							
Fixed	Philippine Commercial Capital Inc. – Trust and In	9,000	-	8,917	3.4408%	Bullet	October 2027
Fixed	Philippine Commercial Capital Inc. – Trust and In	9,000	-	8,906	4.3368%	Bullet	October 2025
Fixed	Bank of the Philippine Islands	3,125	1,244	3,116	4.5900%	12-month grace period; amortized in 16 quarterly payments	April 2025
Fixed	Philippine Depository and Trust Corp	7,000	6,990	6,990	4.5219%	Bullet	October 2023
Fixed	Banco De Oro	3,750	2,138	3,744	5.5276%	Amortized quarterly for 7 years	July 2024
Fixed	Banco De Oro	5,000	613	4,968	7.4206%	Amortized quarterly for 5 years	June 2027
Fixed	Philippine Depository and Trust Corp	13,200	-	13,144	7.8183%	Bullet	April 2024
Fixed	Philippine Depository and Trust Corp	6,800	-	6,762	8.0551%	Bullet	October 2025
Fixed	Landbank of the Philippines	5,000	614	4,969	7.5496%	15-month grace period; amortized in 16 quarterly payments	June 2027
Fixed	China Bank Corporation	2,375	-	2,359	6.4920%	Bullet	September 2025
Fixed	China Bank Corporation	625	-	621	6.8672%	Bullet	September 2025
Fixed	China Bank Corporation	5,000	-	4,967	7.1663%	2-year grace period; amortized in 7 semi-annual payments	May 2027
		69,875	11,599	69,463			
Foreign currency - denominated							
Floating	Standard Chartered Bank (Hongkong) Limited	6,348	-	6,276	LIBOR + margin	2-year grace period; amortized in 7 semi-annual payments	May 2024
Floating	Sumitomo Mitsui Banking Corp.	4,574	1,800	4,527	TONA + margin	2-year grace period; amortized in 7 semi-annual payments	March 2025
Floating	Standard Chartered Bank (Hongkong) Limited	27,599	-	26,795	SOFR + margin	2-year grace period; amortized in 7 semi-annual payments	Nov 2027
		38,521	1,800	37,598			
Total Long-term Debt		**P 108,396**	**P 13,399**	**P 107,061**			

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
DECEMBER 31, 2022

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	6,858,912,221	1,871,443	2,514,320,833
Preferred stock	624,895,503					
Series 3A Preferred		13,403,000	Not applicable	-	700	13,402,300
Series 3B Preferred		6,597,000	Not applicable	-	20,300	6,576,700

PETRON GROUP STRUCTURE



** Structure as of December 31, 2022 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.*

*** Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2022 posted on the EDGE Portal of the Philippine Stock Exchange.*

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	December 31, 2022	December 31, 2021
Liquidity			
a) Current Ratio	Current Assets / Current Liabilities	**1.07**	0.99
b) Quick Ratio	Current Assets less Inventories and Other Current Assets / Current Liabilities	**0.53**	0.47
Solvency			
c) Debt to Equity Ratio	Total Interest-bearing Liabilities [b] / Total Equity	**2.16**	1.91
d) Asset to Equity Ratio	Total Assets / Total Equity	**4.05**	3.67
e) Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges	**1.62**	1.73
Profitability			
f) Return on Equity	Net Income [a] / Average Total Equity	**5.97%**	6.23%
g) Return on Assets	Net Income [a] / Average Total Assets	**1.54%**	1.63%
Operating Efficiency			
h) Volume Growth	(Current Period Volume / Prior Period Volume) -1	**37.17%**	4.66%
i) Sales Growth	(Current Period Sales / Prior Period Sales) -1	**95.78%**	53.15%
j) Operating Margin	Income from Operating Activities / Sales	**2.24%**	3.93%

[a] *trailing 12 months net income*
[b] *excludes lease liabilities*

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2022
(Amounts in Thousand Pesos)

PETRON CORPORATION
SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City

Unappropriated retained earnings, *as adjusted to available for dividend distribution,* beginning		**P6,268,172**
Add: Reversal of prior years' unrealized net income		**361,291**
Adjusted Unappropriated retained earnings, beginning		**P6,629,463**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	P2,536,160	
Less: Non-actual/ unrealized income, net of tax:		
Fair value gains arising from marked-to-market measurement *(P919,385 if gross of tax)*	689,539	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS *(P211,518 if gross of tax)*	158,639	
Sub-total	848,178	
Net income actually earned during the year	1,687,982	**1,687,982**
Less: Dividend declarations during the year	(1,043,906)	
Distributions paid	(4,545,822)	
	(5,589,728)	**(5,589,728)**
TOTAL RETAINED EARNINGS, END OF THE YEAR AVAILABLE FOR DIVIDEND DECLARATION		**P2,727,717**

PETRON CORPORATION
Proceeds from Issuance of Series E and Series F Fixed Rate Bonds
December 31, 2022

i. Gross and Net Proceeds as disclosed in the final prospectus

In P Millions	
Gross Proceeds	**P18,000.00**
Less: Underwriting fees for the Preferred Shares being sold by the Company	63.00
Taxes to be paid by the Company	135.00
Philippine SEC filing and legal research fee	5.11
Listing application fee	0.20
Listing maintenance fee	0.45
Rating fee	4.05
Trustee fees	0.13
Registry and paying	0.50
Estimated legal and other professional fees	7.80
Estimated other expenses	0.55
Total Expenses	**P216.79**
Net Proceeds	**P17,783.21**

The net proceeds of the Offer shall be used for (i) the redemption of the Company's Series A Bonds, (ii) the partial financing of the Power Plant Project, and (iii) payment of existing indebtedness

ii. Actual Gross and Net Proceeds

In P Millions	
Actual Gross Proceeds	**P18,000.00**
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	227.95
Actual Net Proceeds	**P17,772.05**

iii. Each Expenditure Item where the Proceeds was Used

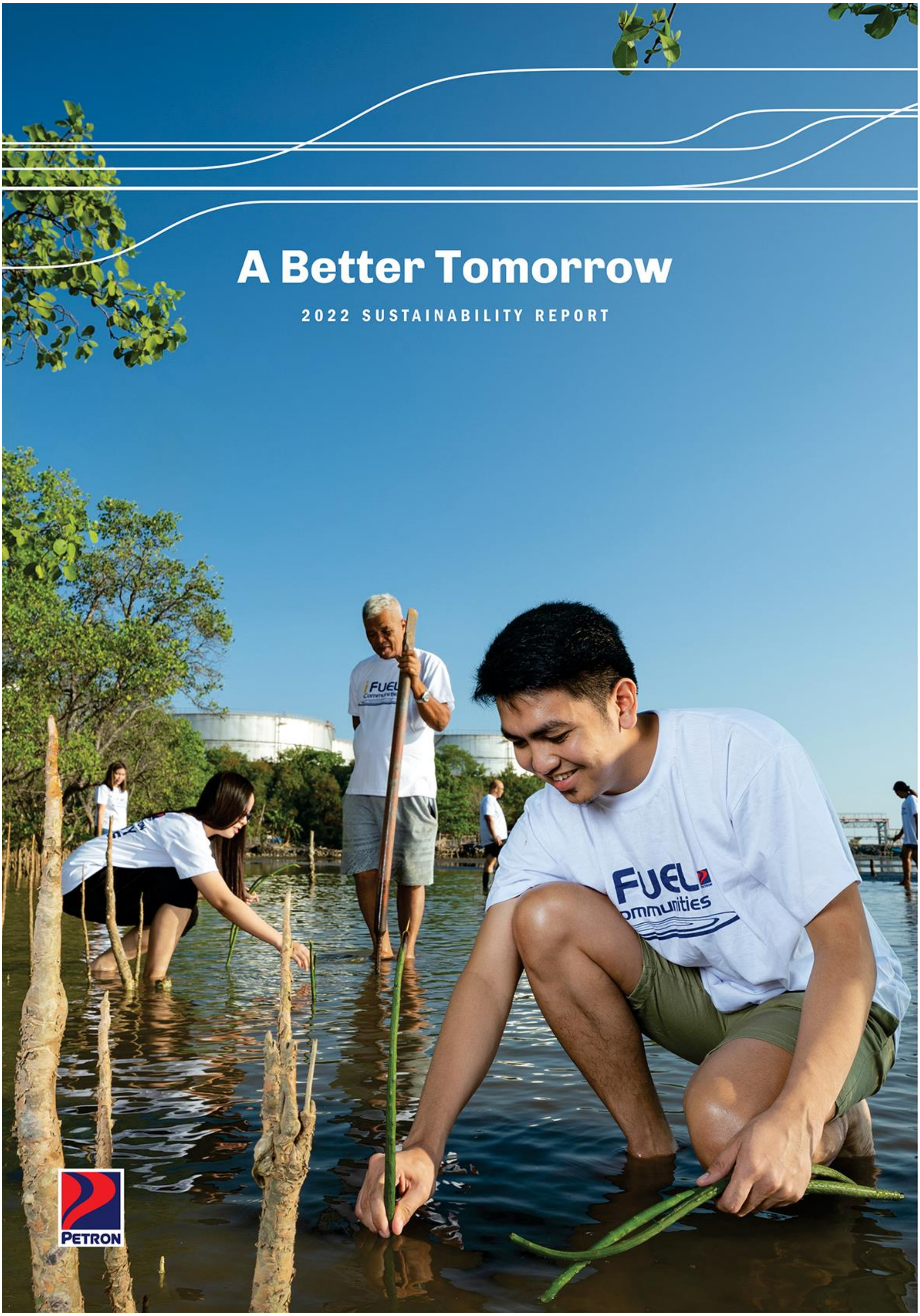
In P Millions	
Actual Net Proceeds	**P17,772.05**
Less: Redemption of the Series A Bonds	13,000.00
Payment for power plant project	2,964.60
Payment of long term loan amortization to:	
Bank of the Philippine Islands	697.49
BDO Unibank, Inc.	535.71
UnionBank	250.00
Total Payments	**P17,447.80**
Balance	**P324.25**

iv. Balance of the Proceeds as of the End of the Reporting Period

As of December 31, 2022, balance of proceeds amounted to P324.25 million.

ANNEX D

2022 Sustainability Report


A Better Tomorrow
2022 SUSTAINABILITY REPORT
FUEL Communities
PETRON

ABOUT THE COVER

In light of the COVID-19 pandemic and the looming climate emergencies, it has become apparent that building resilient communities is a collective obligation and the only practical path moving forward. At Petron, we recognize that our success is intertwined with the well-being of the communities we serve and the natural environment in which we operate. Therefore, we are committed to conducting our business in a manner that addresses important concerns relating to the economy, environment, and people.

To build a better tomorrow, we must do better. We are committed to closely monitoring and reporting our sustainability performance and extending our contributions to fulfill global goals and targets. While the oil and gas industry is considered a hard-to-abate sector, we remain determined to set our strategic direction and journey towards a more sustainable future.

Through this Sustainability Report, we aim to share our progress with our stakeholders to join us in building a better tomorrow. It is time to inspire, empower, and start taking action to build a more sustainable and resilient future.

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ABOUT THE REPORT (2-2)

To better respond to the changing needs of our external environment, we recognize the urgent and significant shift required in how we conduct our business. As we strive to become an integral part of the lives of our stakeholders, we aim not only to improve our operational performance but also to serve as a key partner in caring for the community and the environment. In keeping with our promise of transparency and accountability, this Sustainability Report showcases our objectives and progress in managing our impact on the world.

To ensure the quality of our reporting, we prepared our 2022 Sustainability Report in accordance with the latest GRI Standards (2022) and the Sustainability Reporting Guidelines of the Philippine Securities and Exchange Commission (SEC) particularly the Memorandum Circular No. 4 Series of 2019.

Our report covers Petron's sustainability performance from January 1 to December 31, 2022, including information on the following facilities in the Philippines: Corporate Head Office, Petron Bataan Refinery (also, PBR or Refinery) and Polypropylene Plant, 32 terminals and sales offices nationwide, 23 select company-owned service stations, and our corporate social responsibility arm, Petron Foundation, Inc.

We conducted a robust materiality assessment to identify the sustainability topics that have a current or potential impact on our Company and our socio-economic environment. Our assessment included reviewing the important sustainability issues that may present the largest and most critical risks and opportunities to our Company and engaging with our stakeholders to seek valuable inputs on the sustainability topics that matter to them. Our material topics were assessed and validated by our sustainability champions from the Senior Management.

In determining our material topics, we referred to the GRI 11: Oil and Sector Standards (2021) and the United Nations Sustainable Development Goals (UN SDGs). We also aim to continuously contribute to our country's goals and aspirations towards sustainable and inclusive growth. With this, we aligned our material topics with the focus areas of the Philippine Development Plan (PDP) 2023-2028. The full list of our disclosures on our material topics may be found in the GRI Content Index of this report.

Throughout this report, we used the terms “Petron”, “we”, “our Company”, and “our business” to refer to Petron Corporation.

MESSAGE FROM THE PRESIDENT AND CEO (2-22)

We have always believed in sustainability since the inception of our Company 89 years ago. Our growth has been fueled by our unwavering passion for excellence in our products and services and our commitment to the growth of our nation. Our dedication and goals have remained unchanged throughout the years. However, we acknowledge the importance of evolving into a company that not only flourishes as a business but also serves as a catalyst for hope and progress for future generations of Filipinos. We aim to become a company that not only meets the needs of the present but also ensures the sustainable development of our country for years to come. Amidst the multiple and continuing challenges of market volatility, heightened competition, and climate change, among others, we continue to evolve as an organization. This has allowed us to remain resilient throughout the COVID-19 pandemic that crippled global economies. It has enabled us to successfully navigate the ever-shifting business landscape and prepared us to immediately resume our role in building – and shaping – a better tomorrow for our business, our stakeholders, and our country.

Through our collective efforts, we have made much progress in our sustainability journey. In 2022, we strengthened our financial performance compared to the previous year, maintained market leadership, reduced GHG emissions, minimized water use, and ensured safer and greener operations across our business. Through faithful compliance with laws and regulations, coupled with efficient operations and proactive stakeholder engagement, we have not only achieved additional economic benefits but also earned the trust and support of the communities we serve, securing our social license to operate.

Emerging Stronger and Building Back Better

In 2022, we maintained our positive momentum and successfully left behind the uncertainties caused by the pandemic. Our strategic management of operating costs and optimization of refining assets resulted in an operating income of P19.21 billion, a 12% improvement from last year's P17.21 billion. Moreover, we achieved a net income of P6.7 billion, reflecting a 9% increase from the previous year. Our market performance was impressive, as we experienced growth in both retail and industrial volumes, recapturing our leadership in the LPG business. Furthermore, we continued to hold the largest service station network nationwide, boasting around 1,900 service stations. We also expanded our retail network by adding new LPG stores, Treats convenience stores, commercial locators, and Petron Car Care Centers (CCC). In summary, we sustained our positive momentum in 2022 by strategically managing our operations, resulting in impressive financial performance and market growth, all while continuing to expand our retail network.

We are also thrilled to announce our upcoming project of establishing our own plant to produce coco-methyl ester (CME), which is mandated by the Biofuels Law to be blended in diesel products. With this project, we aim to achieve greater self-sufficiency, and produce renewable fuel from plant-based components. This will help ensure the stability of supply and quality of CME for our world-class diesel fuel. In addition to these benefits, our initiative will also contribute to the local economy by sourcing raw materials from our coconut farmers. We are committed to pursuing sustainable business practices that not only benefit our company but also create a positive impact on the environment and society as a whole.

Doing Good for Our Environment

We recognize as we supply the fuel and energy needs of the country, our challenge to ourselves is how to manage and minimize our environmental impact especially with the growing concern for climate change and the continuing decline of our natural resource. To ensure that we minimize our impact, Petron has been implementing various measures throughout our business operations.

Through best practices, such as adopting the circular economy model, we tackle waste across all our business operations, recycling and reusing products without compromising quality or safety. We monitor our environmental performance nationwide and strictly comply with environmental laws and regulations.

We believe that improving our water and energy management is crucial to reducing our environmental impact. As part of San Miguel Corporation's Water for All program, Petron has attained the highest total volume of water savings among all SMC subsidiaries. One of the ways we have achieved this is through our rainwater harvesting program, which has been implemented in many of our facilities. These facilities now have access to alternative sources of water for non-critical operations. In addition, we are gradually transitioning our service stations to more energy-efficient lighting sources and investing in solar technology to improve our energy utilization. This will not only help us reduce our environmental footprint but also make our operations more sustainable in the long run.

We also regularly coordinate with the Department of Environment and Natural Resources (DENR) and the local government units (LGUs) in the areas where we operate to ensure that our efforts align with theirs in safeguarding critical ecosystems. Our long-standing projects such as the *Puno ng Buhay* reforestation program and the Bataan Integrated Coastal Management program aim to accelerate restoration and conservation efforts with the support of local communities and key stakeholders.

Through exclusively-designed programs such as our Terminal EcoWatch program and Pollution Control Officers (PCO) trainings, we raise the environmental awareness of personnel in our facilities and service stations nationwide while ensuring their compliance with existing laws and regulations. Eight years into the program, our Terminal EcoWatch program has become a 'badge of honor' among the top performers and serves to motivate our entire Terminal Operations.

By promoting sustainable practices and reducing our environmental impact, we are not only doing the right thing for the environment but also positioning ourselves for long-term success. We are committed to sharing more about our environmental impact reduction processes, from managing our greenhouse gas emissions to energy and water usage, in this Sustainability Report.

Uplifting Our Communities

As we continue to further strengthen our business, we remain mindful of our commitment to our internal and external communities: our employees, business associates, and stakeholders. As partners in our growth, we exert every effort to improve their economic and social conditions by enabling them to become empowered and engaged citizens.

Within the organization, we ensure that our employees experience a safe, healthy, and conducive work environment, with opportunities for their development. In our sustained efforts to protect our people from the pandemic, we made sure that our entire workforce, as well as their dependents and third-party service personnel, received full vaccination against COVID-19, even as we retained strict health protocols in our plants and offices nationwide. Specifically in Bataan, we extended this benefit to residents of our host LGU.

"As we approach our 90th year, we are firmly committed to the long-term improvement of our business, our people, our consumers, and our communities.

We look at our future with a firm intent on building on the successes of our past and evolving to become a company of and for tomorrow. We will achieve this by making sustainability the cornerstone of our corporate philosophy, principles, plans, and programs."

Throughout the country, we have remained committed to fueling hope, particularly in the areas where we operate. Our Tulong Aral ng Petron scholarship program, which has been running for 21 years, continues to support thousands of children from our fenceline communities from elementary to college, providing a pathway out of poverty through education. Meanwhile, our Refinery Engineering Scholarship program offers graduates the opportunity to work in our Refinery and Terminals. Despite the challenges posed by COVID-19, we have found ways to continue supporting our communities, such as sustaining reforestation efforts and providing for the repairs and maintenance of public schools. Additionally, we sent relief assistance to families affected by major calamities such as the earthquake in Abra province. Despite the physical limitations imposed by the pandemic, our commitment to supporting the community remain unwavering.

Upholding the Principles of Operational Excellence and Good Governance

We remain fully committed to conducting our business in accordance with the highest standards of corporate governance and operational excellence. To demonstrate this commitment, we are proud to share that 30 of our terminals and sales offices have achieved certification under ISO 9001:2015 (QMS) while 29 are certified ISO 14001:2015 (EMS), and ISO 45001:2018 (Occupational Health and Safety Management System) – a testament to the quality of our processes, commitment to environmental responsibility, and our prioritization of employee safety and well-being. Moreover, 15 of our facilities have also been certified under the International Ship and Port Facility Security Code (ISPS Code) by the Office for Transportation Security under the Department of Transportation (DOTr). This highlights our unwavering commitment to the safety and security of our people and the communities in which we operate. Our pursuit of these certifications serves as evidence of our unrelenting focus on delivering excellence across all facets of our operations.

As part of our sustainability priorities, we have made good governance a fundamental aspect of how we operate our business. Among the hallmarks of our faithful compliance to this is our record of human rights, where there have been no incidents of discrimination, child labor, nor any hurdles to the exercise of our employees' freedom of association and collective bargaining. And we remain committed to upholding this in the highest standards. Which is why we are proud to have been recognized by the Institute of Corporate Directors (ICD) through their ASEAN Corporate Governance Scorecards (ACGS). Petron was awarded two Golden Arrows for our commitment to excellence in corporate governance.

We are also pleased to share that our compliance and cooperation have been recognized by government agencies such as the Department of Finance and Bureau of Customs, when Petron was named as the top importer for 2022. Our prompt tax payments and compliance, support these agencies in achieving their target revenue generation for the country. We are proud to have played a role in contributing to the growth and development of our nation, and we remain committed to upholding our values and principles in everything we do.

Deepening our Commitment to Sustainability

Despite the ongoing global health crisis and the many other challenges that we face, we are proud to say that Petron has remained resilient and has continued to consistently provide exceptional customer experiences. As we approach our 90th year, we are firmly committed to the long-term improvement of our business, our people, our consumers, and our communities. We look at our future with a firm intent on building on the successes of our past and evolving to become a company of and for tomorrow. We will achieve this by making sustainability the cornerstone of our corporate philosophy, principles, plans, and programs.

In 2022, we established an ESG Council to ensure that our Environmental, Social, and Governance initiatives are well-aligned with our long-term goals. This committee is responsible for overseeing the development, implementation, and monitoring of our ESG strategies and initiatives as we embed sustainability in all our business operations. At the same time, we developed our ESG Policy that defines the principles and establishes our sustainability priorities of Environmental Stewardship, Economic and Environmental Responsibility, and Good Governance. These steps mirror the broader sustainability goals of the entire San Miguel Group.

As a means to this end, we have adopted the widely recognized Global Reporting Initiative or GRI Standards in our sustainability reporting. By providing a comprehensive account of our environmental, social, and economic impacts and performance, we aim to improve our sustainability performance and meet the expectations of our stakeholders.

All these reflect the same Filipino values and principles embraced throughout the San Miguel Group: *MALASAKIT.* This is our greatest sustainable resource and reflects our positive outlook. This attitude of gratitude and concern for others guides us to make our business last. By prioritizing the best interests of all our stakeholders, and by taking care of the environment and the community, we align ourselves with society in building a better tomorrow.

Ramon S. Ang
President and CEO

WHO WE ARE

ABOUT THE COMPANY (2-1)

Petron Corporation is the largest oil company in the Philippines and the only one with a Refinery. Our product offerings include a full range of world-class fuels and petrochemicals that fuel the lives of millions of Filipinos. We are also a leading player in the Malaysian market, with a combined refining capacity of 268,000 barrels per day.

Philippines

In the Philippines, we supply approximately 30% of the country's total fuel requirements through our 180,000-barrel-per-day oil Refinery in Bataan, which is widely regarded as one of the most advanced facilities in the region. Our Refinery processes crude oil into a variety of petroleum products, including gasoline, diesel, liquefied petroleum gas (LPG), jet fuel, kerosene, and petrochemicals.

From the Petron Bataan Refinery (PBR or Refinery), we move our products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. Through this robust distribution network, we fuel strategic industries such as power generation, manufacturing, mining, and agribusiness, among others. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through our network of around 1,900 retail service stations in the Philippines as of December 31, 2022, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector.

Since 2010, we have been a subsidiary of San Miguel Corporation (SMC), one of the largest and most diversified conglomerates in the Philippines. We are committed to expanding and growing our business to have a positive impact on the markets where we operate.

Petron has long been a stalwart partner in the nation-building efforts of the Philippines, powering industries, fueling economic growth, and improving the lives of Filipinos, despite significant socio-economic changes over the years.

Our headquarters are in the San Miguel Corporation Head Office Complex in Mandaluyong City, Philippines. Additionally, Petron's shares are listed on the Philippine Stock Exchange (PSE).

Malaysia

To expand our presence in the region, we established our business in Malaysia in March 2012, which includes integrated refining, distribution, and marketing. Our subsidiaries in Malaysia are Petron Malaysia Refining & Marketing Bhd (PMRMB), which is publicly listed on the Main Board of Bursa Malaysia, as well as Petron Fuel International Sdn. Bhd. (PFISB) and Petron Oil (M) Sdn. Bhd. (POMSB).

Our 88,000-barrel-per-day Refinery, Petron Port Dickson Refinery, produces a wide range of petroleum products such as gasoline, diesel, LPG, and aviation fuel. We have established a robust distribution network to ensure a continuous and reliable supply of quality fuels to our customers in Malaysia, distributing our world-class fuels from 10 strategically-located depots and terminals of Petron subsidiaries. Our network of more than 750 service stations throughout Malaysia reinforces our mission of being an integral part of our customers' lives.

We strive to exceed our customers' expectations and meet their changing needs, embodying what our brand stands for – innovative products, excellent service, successful partnerships built on trust, and care for our customers. This is reflected in our top-of-the-line products and programs for safety, environment, and education, as we continue to contribute to sustainability and social development.

Our Vision

To be the leading provider of total customer solutions in the energy sector and its derivative businesses

Our Mission

To achieve our mission, we have set out specific goals to guide us in:

- Being an integral part of our customers' lives, delivering a consistent customer experience through innovative products and services;
- Developing strategic partnerships in pursuit of growth and opportunity;
- Leveraging our refining assets to achieve competitive advantage;
- Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence;
- Caring for our community and environment;
- Conducting ourselves with professionalism, integrity, and fairness; and
- Promoting the best interest of all our stakeholders.

By following these goals, we believe that we can continue to be a reliable partner in powering the growth and development of the markets where we operate.

OUR BUSINESS MODEL

As a key player in the Philippine oil industry, we are committed to delivering world-class petroleum products across our operating facilities while creating value for our customers.

Our Products

We provide a wide range of world-class fuels, including Blaze 100, XCS, Xtra Advance, Turbo Diesel, and Diesel Max, through our operating facilities. Additionally, we offer Gasul and Fiesta Gas, our LPG brands, to households and commercial consumers through our extensive retail network.

PETRON BLAZE 100 OCTANE
PETRON XCS
PETRON XTRA ADVANCE
PETRON TURBO DIESEL
PETRON DIESEL MAX
PETRON GASUL
fiesta GAS
PETRON BLAZE RACING GASOLINE ENGINE OIL
PETRON REV-X DIESEL ENGINE OIL
PETRON SPRINT 4T MOTORCYCLE ENGINE OIL
JET A-1
KEROSENE
BTX
Benzene, Toluene, Xylene
PROPYLENE
POLYPROPYLENE

We take pride in our product leadership, which extends to our premium line of engine oils that meet or exceed global standards. These engine oils are formulated, tested, and produced locally at our state-of-the-art Lube Oil Blending Plant located in Tondo, Manila. With twice the capacity of our former plant in Pandacan, we are now able to produce even more high-quality engine oils.

In addition, we source our fuel additives from our blending facility in the Subic Bay Freeport, giving us a unique capability to formulate additives that are specifically suited for the driving conditions in the Philippines.

WHERE WE OPERATE: OUR BUSINESS AREAS

Our 2022 Sustainability Report focuses on our operations in the Refinery, as well as our terminals and select company-owned service stations nationwide.

For more than 50 years, our Refinery has been a reliable source of quality fuel products for the country. Our terminals have also played a crucial role in expanding our supply and distribution network across the nation, while maintaining a commendable track record in monitoring environmental impacts. Finally, our service stations serve as vital touchpoints with our customers, enabling us to deliver our products and services conveniently and safely, while staying committed to being environmentally friendly and sustainable.

Refinery

PBR is the only Refinery in the Philippines, occupying a total land area of 240 hectares in Limay, Bataan. Since its establishment in 1961, PBR has significantly progressed from its original crude processing capacity of 25,000 barrels per day to its current capacity of 180,000 barrels per day.

To keep up with the ever-changing market conditions and stringent product and environmental specifications, we have invested in downstream facilities. This has allowed us to not only enhance our crude processing capacity but also ensure that we can provide high-quality products that meet the needs of our customers and comply with relevant regulations.

Our diversification into petrochemicals began with the establishment of our mixed xylene plant in 2000 and our propylene recovery unit in 2008. In 2010, we acquired an original 40 percent stake in Petrochemical Asia (HK) Ltd. (PAHL), which owns Philippine Polypropylene Inc. (PPI) that operated then a polypropylene plant in Mariveles, Bataan. In 2014, we acquired full ownership of PPI, and have since taken over its operations. This significant undertaking has allowed us to enhance our overall efficiency in petrochemical operations and pursue our expansion plans to become a major producer of resin in the country.

The Refinery processes crude oil from various parts of the world, such as the Middle East and the Far East, to produce major petroleum products such as gasoline, jet fuel, diesel, kerosene, and LPG. Additionally, we produce petrochemicals that are essential in our daily lives, from the production of home appliances and electronic devices to the clothes we wear. As the largest and most complex industry in the Philippines, our Refinery has the capability to convert low-value products into high-value white products through crude separation and conversion. This also allows us to convert heavy fuel oil which has high GHG intensity and convert to petrochemicals and higher value lighter fuel which has lower or zero GHG intensity.

Our Refinery relies on stable and reliable cogeneration power plants that supply power and steam at more energy efficient way. We have also optimized use of water resources including operating a desalination plant using waste heat from refinery operation. Together with other facilities, the refinery is able to sustain its operation and ensure uninterrupted production.

Terminals

Our petroleum products are transported from the Refinery to a nationwide network of terminals and sales offices through barges and marine vessels in partnership with leading marine transport firms. This partnership ensures the quality and continuity of our primary distribution to strategic industries such as power generation, manufacturing, mining, and agribusiness. In addition to fueling these industries, we supply jet fuel to international and domestic carriers at key airports through a robust distribution network.

To maintain efficient operational performance, Petron's terminals strictly monitor their environmental impacts through a company-initiated rating system. This system adheres to national regulations and international standards and ensures that we uphold our commitment to environmental responsibility while providing top-quality products and services.

Service Stations

Our extensive network of service stations across the Philippines receives our petroleum products from depots and terminals for distribution. Our fuel retail services cover around 1,900 stations and cater to motorists and the public transport sector, primarily with fuel products such as gasoline and diesel. We likewise strive to provide our customers with a one-stop, full-service experience by partnering with popular food and service locator chains. Our select service stations have Treats convenience stores, where motorists on the go can find a variety of food, beverages, and personal items. We also offer professional automotive maintenance and repair services through our Car Care Center (CCC) and Car Care Center Express (CCCE) outlets. Our experienced technicians use modern tools and equipment to provide a complete line of services, including Change Oil and Brakes/Suspension.

At Petron, we are proud to adopt an environmental management plan in our service stations. We started implementing solar power in 2021, with On-Grid PV System solar panels installed in four service stations, one of which is our Petron Expressway Center in Marilao, Bulacan which will have a net metering arrangement. We plan to roll out this program to more locations to increase the percentage of solar power in our energy mix.

In constructing new stations, we use a modular and panelized construction system that not only provides an efficient and eco-friendly way of building but also results in an industrial and minimalist exterior. Our new signages and framing design prioritize safety and minimize risks and damages during typhoons and other calamities. With these initiatives, we aim to offer high-quality products and services while demonstrating our commitment to environmental responsibility.

OUR COMMITMENT TO SUSTAINABILITY

SUSTAINABILITY FRAMEWORK (2-22)

Consistent with our vision and mission, our goal is to maintain our position as the leader in the local oil industry. We recognize our duty not only to fuel the productivity of the economy and the lives of every Filipino but also to create lasting and positive change. Our sustainability priorities guide us in maximizing our positive impact on our business, society, and nation, anchored on national and global development goals and principles. We align our priorities with the sustainability blueprint of our parent company, San Miguel Corporation, as we actively participate in the fulfillment of our overall goals and objectives.

A BLUEPRINT FOR SAN MIGUEL CORPORATION

We uphold our values by implementing environmental, social, and governance strategies that demonstrate our commitment to sustainability. To ensure transparency in measuring and managing our impacts, we incorporate sustainability metrics into our processes. This enables us to objectively assess our program development and meet the requirements of various certifying and auditing bodies such as the International Organization for Standardization (ISO) and the Philippine Council for NGO Certification. Additionally, local and international investing and financing firms require tangible proof of accomplishments, and our sustainability metrics allow us to provide this evidence.

As part of our extensive efforts to mitigate climate change, we have set targets for reducing our greenhouse gas (GHG) emissions. We also prioritize engaging with our stakeholders, specifically enhancing their livelihoods, education, environment, and other development initiatives. Our commitment to sustainability is ingrained in our culture, as we encourage our employees to actively participate in our environmental, social and governance (ESG) efforts.

To ensure our consistent compliance with regulations, we continuously improve our internal systems, specifically those related to our corporate policies and risk management. This allows us to maintain our high standards and effectively manage potential risks associated with our operations.

OUR ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) POLICY (2-23)

As the owner of the Philippines' only oil Refinery, Petron plays an integral role in our nation's economic growth and progress. We ensure energy security by meeting the Philippines' requirement for petroleum products and operating the country's largest fuel distribution network.

Our sustainability goals support those of the national government, focusing on minimizing environmental impact; positively affecting and uplifting the lives and well-being of our employees and our communities; and raising standards of governance.

Consistent with these principles and aligned with the sustainability goals of the San Miguel Group, we commit to meeting the following priorities:

ENVIRONMENTAL STEWARDSHIP

- Adhere to all applicable regulatory requirements aimed at minimizing the Company's impact on the environment;
- Effectively manage our environmental footprint with focus on reducing greenhouse gas emissions, conserving water, and managing our wastes;
- Actively support the government's programs on the use of clean fuel; and
- Continually develop or embrace additional future technologies that will result in environmentally and socially beneficial offsets.

SOCIAL WELL-BEING

- Foster a safe, healthy and decent workplace for our employees;
- Promote a work environment that would provide opportunities for employees' development and engagement; and
- Improve the quality of life of our communities and external stakeholders through relevant social responsibility programs in education, environment, entrepreneurship, and health and human services.

GOOD GOVERNANCE

- Foster a governance structure that is founded on strong ethical standards, integrity and transparency through our ongoing commitment to all applicable legislation, regulations, and codes of conduct and practices, and exceeding such standards where possible; and
- Ensure the long-term viability of our business by managing our risks and improving our supply chain to enhance shareholder value, contribute to national development, and the betterment of our fenceline communities.

We will further strengthen our engagement with our stakeholders in relation to our ESG initiatives by reporting our progress in accordance with applicable guidelines issued by relevant regulatory authorities and global standards for sustainability reporting.

SUSTAINABILITY PERFORMANCE HIGHLIGHTS

ENVIRONMENTAL

Program/Initiative	Starting Year of Implementation	Gains	Savings (PHP)
SMC Water for All	2016	Refinery & Terminals: 17.38 million m^3 scarce water (2.08 million m^3 in 2022) reduction and used 3.94 million m^3 recycled water (0.61 million m^3 in 2022) since 2016	Refinery: PHP 111-M savings on scarce water (PHP 17.8-M in 2022) based on deepwell equivalent and 16.1 MMP savings on recycled water (PHP 2.5-M in 2022)
		Terminals: 58,342m^3 of harvested rainwater since 2016	Terminals: PHP 2.0-M water savings from rainwater
Use of Waste Energy (Low Pressure Steam) in Desalination Plant	2016	Refinery: Avoided GHG: 601,669.615 tons CO_2e since 2016 (91,331.254 tons CO_2e in 2022) Avoided Fuel: 182,672.171 MT of petcoke since 2016 (27,728.970 MT in 2022)	Refinery: Fuel Savings – PHP 780.92-M (PHP 118.54-M in 2022)
Commissioning of Cogeneration Facility Phase 3	2022	Refinery: 38,038.21 kL Fuel Oil savings 114,926.444 tons of avoided CO_2e	Refinery: PHP 1,276.9-M savings from avoided Fuel Oil
Diversification to Petrochem (Benzene, Toluene, Mixed Xylene, Propylene, Polypropylene)	1999 (Mixed Xylene) 2008 (Propylene, Benzene, Toluene) 2014 (Polypropylene)	Refinery: In 2022 the avoided GHG as Scope 3 if used as fuel was at 1,542,627.32 tons CO_2e	
LED Conversion and Solar Power Usage	Refinery: 2013 for offices, 2016 for streetlights	Refinery: 12,536.31 kWh saved/ 8.9 tons CO_2e reduced (1,252.51 kWh/ 0.9 tons CO_2e in 2022) for offices since 2013	Refinery: PHP 22,440 for offices since 2013 (PHP 2,242 in 2022) PHP 40,480 for streetlights since 2016 (5,786Php in 2022)

Program/Initiative	Starting Year of Implementation	Gains	Savings (PHP)
		22,614.53 kWh saved/ 16.1 tons CO_2e reduced (3,232.40 kWh/ 2.3 tons CO_2e in 2022) for streetlights since 2016	
	Terminals: (2018)	Terminals: 137,000 kWh saved/ 98 tons CO_2e reduced in 2022	Terminals: PHP 1.37-M on electricity cost
	Service Stations (2018)	Service Stations: 3,018 MWH/2,149 tons CO_2e reduced in 2022 for 347 service stations (8,700 kWh/6.2 tons CO_2e per SS)	Service Stations: PHP 30.18-M on electricity cost
Bulk Additives Delivery (Terminals)	2019	156 metric tons (MT) per year of steel drums avoided	PHP 29.7-M per year
Waterless Receiving (Terminals)	2019	Eliminated 10,000 m^3 per year of wastewater	Avoided PHP 70.0-M investment cost on wastewater treatment facilities (PHP 7.0-M/ facility x 10 facilities)
Hazardous Waste Recycling (Refinery)	2018	**2018-2022:** 4,650 MT hazardous waste diverted from disposal **2022 only:** 1,633 MT hazardous waste diverted from disposal	**2018-2022:** PHP 39.07-M **2022 only**: PHP 10.97
Continuous to Batch Treatment at Spent Caustic Treater (Refinery)	2020	**2020-2022:** 7,804.32 MT CO_2e reduced 109,287.23 GJ energy reduced **2022 only:** 1,921.57 MT CO_2e reduced 26,908.61 GJ energy reduced	**2022-2022:** PHP 57.04-M savings **2022 only:** PHP 21.35-M savings
Restoration of Superheater Coils (Refinery)	2022	873.26 GJ energy reduced	PHP 690,000 savings
Puno ng Buhay Mangrove Reforestation (Refinery, Terminals, Foundation)		**Since 2000** Over one million trees and mangroves planted **2022 only** Nearly 15,000 trees and mangroves planted	

SOCIAL

EMPLOYMENT

- 2,171 employees (Philippines)
- 10% attrition
- 100% of employees received regular performance reviews

PRODUCT RESPONSIBILITY

- Over 53,000 feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services

OCCUPATIONAL HEALTH AND SAFETY

- 10 million accumulated safe-man hours for all Petron facilities and personnel (including from the Head Office)
- 10,344 safety training hours for Petron employees, third-party personnel, and industrial accounts

LOCAL COMMUNITIES

EDUCATION

- 2,564 Tulong Aral ng Petron (TAP) scholars from elementary to college for SY 2021-2022
- 976 TAP graduates (elementary to college)
- Over 17,000 TAP scholars since 2002
- 256 Petron Schools/classrooms built since 2002
- 68,800 students and teachers assisted through Brigada Eskwela 2022
- 10,291 teachers, school heads, and administrators benefitting from Teacher Training since 2002

Environment

- 51,371 amount of garbage collected (in kgs)
- 16.6 length of shoreline cleaned (in kilometers)
- 100% of employee volunteer participation in Earth Day, Environment Month, and International Coastal Cleanup Day activities

Community

- 100% participation of Petron terminals in social development activities/initiatives
- Nearly 4,000 beneficiaries of Petron's Rosario Livelihood Loan Assistance Program since 2011
- 84 Petron engineering scholars currently employed in the Petron Bataan Refinery for regular positions
- 206 scholars hired by Petron including Bataan Peninsula State University (BPSU) scholars hired as apprentices or cadets

Health and Human Services

- Over 5,000 SMC employees, third party personnel, and endorsed individuals and Limay residents vaccinated at Ligtas Lahat Bataan Vaccination Site as part of COVID-19 assistance
- PHP 100,000 donation for disaster relief for earthquake victims in Abra province

GOVERNANCE

- PHP 857.64 billion consolidated revenues (up 96% from 2021)
- PHP 6.7 billion consolidated net income (9% better than 2021 performance)
- PHP 123.22 million in community investments

2022 Petron Standards Certifications

MANAGEMENT SYSTEMS	
30 Terminals nationwide	▪ ISO 9001:2015 (QMS)
29 Terminals nationwide	▪ ISO 14001:2015 (EMS) ▪ ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System) Certified
15 Terminals nationwide*	▪ International Ship and Port Facility Security Code ("ISPS Code") and certified by the Office of the Transport Security under the Department of Transportation (DOTr)
CERTIFICATIONS	
27 Terminals and offices nationwide	▪ BFP Kaisa Program certificate recipient
32 Terminals and offices nationwide	▪ Safety Seal certificate (from DOLE and LGUs) recipient
1 Petron Foundation	▪ Philippine Council for NGO Certification (PCNC) accredited for non-stock, non-profit corporations from September 28, 2022 to September 27, 2027

**Iloilo Terminal's ISPS Certification is valid until October 2022 and is in the process of recertification as of report publication*

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT (2-29, 3-1, 3-2)

At Petron, we believe that our stakeholders are essential partners in our journey towards sustainability. We value their feedback and actively engage with them through regular consultations, such as interviews and market research surveys, to better understand their perceptions of our products and services. This feedback helps us improve and strengthen our relationships with the public, consumers, and the industry. In particular, we take investor feedback seriously as it informs our efforts to institutionalize our ESG structure and policies and establish well-defined metrics to measure the impacts of our business.

We also partner with our stakeholders in various corporate social responsibility (CSR) activities to ensure the effective implementation of our programs. By developing needs-based programs, we enable a sense of ownership for the communities we serve and create a multiplier effect that can sustain benefits over the long term. Overall, our engagement with stakeholders is a critical component of our operations, and we are committed to deepening our relationships with them as we continue to build a sustainable future.

To address the urgent socio-economic issues, we understand the need to strengthen our sustainability commitment and take decisive actions. As a step towards this, we engaged the University of Asia and the Pacific - Center for Social Responsibility (UA&P-CSR) to conduct a materiality assessment process. This process helped us identify the sustainability issues that are significant for our Company and our stakeholders, and therefore, require our attention in terms of measurement, monitoring, and reporting.

UA&P-CSR conducted a materiality assessment using a pioneering approach. This approach involves two main processes: the Process of Surfacing and the Process of Prioritization.

The Process of Surfacing includes four activities: desk research (literature review), benchmarking with local and global industry peers, consultation with internal and external stakeholders, and consultation with our Senior Management. The Process of Prioritization involves the prioritization and filtering of the final material topics by our Senior Management.

To ensure a comprehensive view, we used a double materiality approach, which considers a topic as "material" if it has a current or potential impact on both the value creation of Petron and our socio-economic environment. This approach takes into account the impacts of the topics on our financial value as well as our impact on the economy, environment, and society.

In this process, we consulted a total of 104 internal and external stakeholders from the following facilities:

REFINERY	TERMINAL OPERATIONS	SERVICE STATIONS
Petron Bataan Refinery	• San Fernando, Pampanga • Mandaue City, Cebu • Davao City • Bawing, General Santos City • Joint Oil Companies Aviation Fuel Storage Plant (JOCASP, Pasay City • Tacloban City, Leyte • Ormoc City, Leyte	• Mandaue City, Cebu • Davao City • Petron Express Center 1 (NLEX, Marilao, Bulacan) • Petron Express Center 3 (SLEX, San Pedro, Laguna) • Quezon City • Marikina City

In evaluating the material topics of our report, we were able to identify the stakeholders that are key to the conduct of our business operations:

- Shareholders
- Government and regulators
- Industry/business groups
- Consumers
- Employees
- Investors and financial institutions
- Local/host communities and civil society groups
- Academe
- Suppliers, contractors, and third-party service providers
- International organizations/donor agencies
- Media

Distribution of Stakeholders Consulted	59% Internal / 41% External

The UA&P-CSR conducted an initial materiality assessment based on stakeholder consultations. This assessment identified a total of 31 topics, including seven (7) economic, seven (7) environmental, and 17 social topics. To validate and prioritize these topics, we organized a session with Petron Senior Management.

Following this session, we conducted a final materiality assessment that resulted in 20 material topics. These topics are comprised of six (6) economic, six (6) environmental, and eight (8) social topics, and are aligned with both the GRI 11: Oil and Gas Sector Standards and the UN SDGs. Overall, this process allowed us to refine and narrow down our focus to the most important topics for our 2022 Sustainability Report.

List of Material Topics (3-2)

ECONOMIC (6)	Economic Performance • Market Presence • Indirect Economic Impacts • Anti-corruption • Anti-competitive Behavior • Tax
ENVIRONMENTAL (6)	Materials • Energy • Water and Effluents • Biodiversity • Emissions • Waste
SOCIAL (8)	Employment • Labor/Management Relations • Occupational Health and Safety • Training and Education • Local Communities • Customer Health and Safety • Marketing and Labelling • Customer Privacy

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Economic Performance								☑	☑				☑				
Market Presence	☑				☑			☑									
Indirect Economic Impacts	☑		☑		☑			☑	☑		☑						
Anti-corruption																☑	
Anti-competitive Behavior																☑	
Tax	☑									☑							☑
Materials								☑				☑	☑				
Energy							☑	☑				☑					
Water and Effluents												☑					
Biodiversity														☑	☑		
Emissions			☑										☑	☑	☑		
Waste			☑					☑			☑				☑		
Employment			☑			☑		☑		☑							
Labor/ Management Relations								☑									
Occupational Health and Safety			☑					☑							☑		
Training and Education					☑	☑		☑									
Local Communities	☑	☑		☑						☑							
Customer Health and Safety															☑		
Marketing and Labelling												☑			☑		
Customer Privacy															☑		


HOW WE FUEL
A BETTER TOMORROW
FUEL
FUEL

Fueling a Climate-Resilient Path: Our Environmental Journey

We recognize the critical role of climate action in achieving sustainable development, and as a company, we remain dedicated to minimizing our environmental impact and promoting sustainable practices across all our operations. We are constantly striving to manage our environmental footprint through a range of initiatives, including reducing greenhouse gas emissions, conserving energy, and managing waste. We also ensure that our environmental policies and practices are implemented consistently throughout our operations, from our Refinery to our network of service stations.

As an industry leader, we believe it is our responsibility to care for the environment and ensure that future generations can enjoy a safe and healthy environment. We are committed to maintaining this responsibility and will continue to take proactive steps towards achieving our environmental goals.

FEATURE STORY

Initiating, Improving, and Innovating for the Environment

For almost 90 years, Petron has operated its business with due consideration for the environment. Our mission of "caring for the community and the environment" and our corporate commitment to health, safety, and environmental policies aim to protect and preserve the natural environment and promote the health, safety, and security of all stakeholders throughout our value chain. We go beyond merely complying with existing regulations and actively seek ways to initiate, improve, and innovate our business practices to nurture nature.

TERMINAL ECOWATCH PROGRAM. Petron developed the Terminal EcoWatch that is unique in the industry. This program builds on the Industrial EcoWatch Rating System (IERS), an initiative under Department of Environment and Natural Resources (DENR) Administrative Order 2003-26, which encourages self-regulation among industries to improve environmental compliance and performance through a rating system. While the IERS mainly focuses on improving air and water quality, our EcoWatch Program goes further by assessing the environmental performance of our Terminal Operations.

Specifically, it evaluates the maturity of our management programs in several areas, including Wastewater Quality, Air Quality, Solid Waste, Toxic and Hazardous Waste, as well as Environmental Impact Assessment and Environmental Management System. The goal is to promote self-monitoring and compliance with environmental standards among our operating facilities, while also encouraging pollution reduction beyond compliance and enhancing efficiency and bottom-line performance. Furthermore, the program aims to develop the capability of our terminals to self-regulate through environmental management systems.

Since the start of 2014, our Terminal Ecowatch Program has been fully implemented in all of our terminals across the Philippines. This program is an important step in improving our environmental performance and demonstrating our commitment to sustainable practices. It allows us to identify areas where we can improve our environmental performance and strengthen our environmental management systems, ultimately helping us achieve our goal of sustainable operations.

A team of highly qualified personnel, composed of members from Corporate Technical Services Group (CTSG)-Environment, Operations HSSE, and the Petron Environment Council, conducts an annual audit of every Terminal to evaluate its environmental performance. The team assesses the Terminal's performance based on several broad parameters.

Firstly, the team evaluates a Terminal's level of compliance with various environmental laws and regulations and their respective implementing rules and regulations. Specifically, the following environmental laws are taken into consideration: 1) Presidential Decree (P.D.) No. 1586 that established the Philippine Environmental Impact Statement [EIS] System; 2) Republic Act (R.A.) No. 6969 or the “Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990”; 3) R.A. No. 8749 or the “Philippine Clean Air Act of 1999”; 4) R.A. No. 9003 or the “Ecological Solid Wastes Management Act of 2000”; and 5) R.A. No. 9275 or the “Philippine Clean Water Act of 2004”.

Secondly, the assessment team evaluates the extent of the Terminal's management effort to reduce and control pollution, and to implement environmental management plans and programs. Finally, the team evaluates the consistency and continual improvement through the years of implementation.

To ensure the rating criteria remain relevant and attuned to the latest environmental laws and regulations implemented by DENR and other allied regulatory agencies, and on the requirements of our stakeholders, including from investors and financial institutions, the assessment team updates its rating criteria annually.

To evaluate performance, our terminals are rated using a color-coding system, with Platinum being the highest rating at 6.00, followed by Gold, Silver, Green, and Blue. Terminals that fail to perform adequately are marked Red for insufficient compliance and Black for non-compliance. A Platinum Plus rating is awarded to terminals that sustain their Platinum rating for three consecutive years and are elevated to the Hall of Fame.

Since the inception of the program, our Terminals have steadily improved in their ratings, from an average rating of 2.98 in 2014 to an average of 5.64 in 2022, or an 89% increase in collective score. At the end of 2022, all 30 of our terminals and sales offices received high ratings, with the Davao Terminal earning a Platinum Plus rating for four consecutive years, and ten terminals achieving Platinum rating, while the remaining received Gold or Silver ratings.

Through the Terminal EcoWatch Program, we are able to further support Petron's sustainability efforts by promoting self-monitoring and compliance with environmental standards among our terminals, encouraging pollution reduction beyond compliance, and enhancing the capability of our facilities to self-regulate through environmental management systems. Additionally, this supports our commitment to greening initiatives such as mangrove reforestation, which contributes to our carbon sequestration efforts.

POLLUTION CONTROL OFFICERS (PCO) TRAINING. To further encourage sustainable practices across our supply chain, we established a PCO Training program in 2010 as an essential learning tool for Petron employees, service station dealers, and other stakeholders. This is recognized by the DENR Central Office and fulfills the 40-hour environmental training requirement for accreditation as a pollution control officer by the Environmental Management Bureau.

The PCO Training course promotes awareness of environmental laws and regulations, both locally and globally, and highlights the most pressing environmental issues of our time. By completing this course, participants gain a better understanding of their role in promoting environmental compliance and best "green" practices in their communities. Moreover, the PCO's responsibility is to monitor and report on environmental performance and ensure compliance with environmental regulations. Thus, we empower our stakeholders to take on this role and enhance their capabilities to drive sustainable practices within their operations.

Since its inception, the PCO Training program has successfully trained and graduated 3,627 individuals. Moreover, the Corporate Technical Services Group-Environment has been recognized as a Training Organization for Category A Pollution Control Officers, with a valid certification until December 15, 2023. This allows us to continue providing the 40-hour PCO training and 8-hour Managing Head training to our service station dealers and qualified terminals for PCO accreditation.

To further motivate our PCOs, we have implemented a recognition program that acknowledges their crucial role in executing Petron's pollution prevention initiatives, resource efficiency, compliance with legal requirements, and social development. The recognition program comprises the Outstanding Pollution Control Officer award and the Environmental Initiative Award, both of which are presented during the National Environment Month Celebration in June.

The Environment Council of Petron reviews all nominations for the Outstanding Pollution Control Officer award and evaluates all applications for the Environmental Initiative Award. The nominees are evaluated based on the following criteria:

- All accredited Pollution Control Officers of Petron's facilities; and
- Innovativeness and impact of environmental programs implemented.

Please click here to Open the Application Form

Petron Environment Summit

The Petron Environment Summit was initially organized by CTSG-Environment as a virtual forum for the company's Management Committee, Managing Heads, Pollution Control Officers, and select participants within the San Miguel Group. Its purpose was to foster a shared understanding of the latest environmental issues that impact our business continuity and sustainability, as well as the best ways to address them. The session was quickly elevated to become an environment summit, with the goal of expanding its reach and elevating the learnings among the company's key officers and personnel. It was also an excellent opportunity to showcase the best practices on environmental management implemented in various Petron facilities and benchmark with colleagues from SMC.

This was made more relevant by being scheduled in November, to coincide with National Environmental Awareness Month, National Climate Change Consciousness Week, Clean Air Month, and National Day for Youth in Climate Action. The forum covered topics such as the latest regulatory environment, climate change, and disaster risk reduction, and featured a distinguished lineup of resource speakers from government agencies such as the Department of Science and Technology (DOST) and DENR-EMB, as well as industry experts from both within and outside of SMC organization.

The second installment of Petron's Environment Forum in 2022 was focused on sustainability and ESG and featured critical inputs from the University of Asia & the Pacific-Center for Social Responsibility (UA&P-CSR) and SMC's Corporate Sustainability Office. A highlight of the forum was the presentation of SMC's ESG Roadmap, which will guide the different business units of SMC, including Petron, in formulating their respective long-term frameworks and aligning them into a cohesive pathway towards long-term success.

Petron has always been committed to caring for the environment and communities, which is why the sustainability summit is an important milestone in our journey. Since our incorporation in 1933, we have made it a priority to measure, manage, and minimize our environmental footprint at every stage of our operations.

However, we acknowledge that achieving our ESG goals requires much more; we need to be equipped with the knowledge and tools necessary to succeed. That is why we are continuously learning, improving, and innovating by seeking the expertise of external partners and collaborating internally to identify the best practices for our company. We understand that our ESG efforts don't just benefit our company, but also our stakeholders. The Terminal EcoWatch, PCO Training, and Sustainability Summit allow us to share our progress, learn from our peers, and chart a path forward to a more sustainable future for our company, our communities, and our country.

Materials: Managing our Resources Responsibly

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 301-1, 301-2, 301-3
UN Sustainable Development Goals	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience

As the largest oil company in the Philippines, we understand the importance of resource conservation, as these resources are crucial inputs in ensuring an efficient and effective business operation. We are committed to expanding and growing our business, while also ensuring that we have a positive impact in our existing markets. We demonstrate this commitment by responsibly managing both renewable and non-renewable materials that we use, with a focus on reducing waste, improving efficiency, and minimizing our environmental footprint. By taking these actions, we aim to ensure that our business remains sustainable over the long-term, and that we continue to meet the needs of our customers and stakeholders while contributing to the well-being of the planet.

We rely on crude oil as a primary raw material for our business, even though it is a non-renewable resource that may become depleted in the future. However, the prices of crude oil and refined petroleum products are notoriously volatile, and are influenced by a variety of factors such as geopolitical tensions, global economic conditions, and supply and demand dynamics. Despite these challenges, we remain committed to responsible and sustainable practices.

We recognize that the extraction of crude oil has significant negative impacts on the environment, which is why we do not engage in upstream crude extraction. Instead, we focus on refining imported crude oil, which allows us to minimize our environmental impacts while still meeting the needs of our stakeholders.

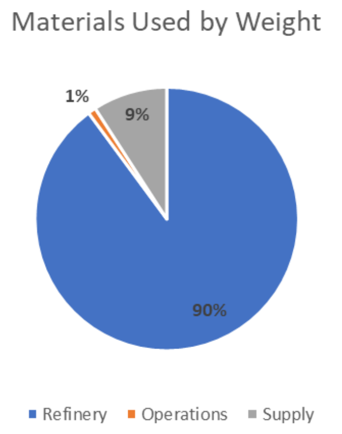
Materials used by weight or volume

In 2022, Petron utilized a total of 7,098,890.15 metric tons of non-renewable materials, such as crude oil, imported fuels, raw materials, and packaging materials. Additionally, we utilized a total of 148,258.44 metric tons of renewable materials, including ethanol and CME, as mandated by R.A. No. 9367 or the "Biofuels Act of 2006."

MATERIALS	2022
Non-renewable materials used[1]	7,098,890.15 MT
Renewable materials used[2]	148,258.44 MT

[1]resource that does not renew in short periods
[2]material that is derived from plentiful resources that are quickly replenished by ecological cycles or agricultural process, so that the services provided by these and other linked resources are not endangered and remain available for the next generation.

Out of the total materials used by Petron in 2022, the Refinery was the largest contributor with 6,514,255 metric tons, followed by imported fuel products and petrochemicals at 662,134.29 metric tons, and operations at 70,759.18 metric tons.



Recycled input materials used

We are committed to reducing waste and promoting circularity. To achieve this, we are taking steps to minimize the amount of waste we generate, such as using recycled materials. While we currently do not incorporate recycled materials into our primary products and services, we have implemented the use of recycled plastic materials in our plastic packaging for lube products. On average, this packaging contains 10% recycled plastic, amounting to a total of 209.56 metric tons.

Reclaimed products and their packaging materials

We aim to promote sustainability in all our operations by minimizing waste and maximizing resource efficiency. For example, our retail LPG products are packaged in reusable steel cylinders or composite materials. We also have a system in place to recover empty cylinders, which we refill at our LPG filling plants. Any remaining cylinders are disposed of as scrap metal for recycling.

Moreover, we have made significant strides in reducing our steel drum usage by shifting to bulk deliveries of fuel additives at our major terminals. We store these additives in steel drums that we later donate, recycle, or send to smelting plants. As a result, we have been able to reduce our annual steel drum usage by 129 metric tons.

Additionally, we have a Logistics Management Plan in place to ensure the availability of petroleum products while managing the risks from price volatility. Our Refinery and fuel terminals are implementing environment, safety, and quality management systems based on ISO standards to address potential risks and impacts.

We have developed an Extended Producer Responsibility Program (EPR) that aims to reduce and/or recover plastic packaging materials used for our lube oil products in compliance with R.A. No. 11898 or the “EPR Act of 2022.” The program will be implemented in 2023, and we have established goals and targets that align with the reduction targets mandated by the EPR Law. We will conduct an annual audit to track the program's effectiveness.

Moreover, as we move towards a low-carbon economy, we are building a Biodiesel Manufacturing Plant (i.e., Coco Methyl Ester/CME) for the production of biofuels. These efforts demonstrate our commitment to responsibly managing our materials while contributing up to 30% of the country's fuel requirements.

By aligning our practices with environmental regulations and international standards, we demonstrate our commitment to sustainable business operations. More importantly, Petron will remain committed to our goal of sustainability and continue to explore opportunities to minimize waste, reduce our environmental impact, and promote the circular use of materials

Energy: Ensuring Sustainable Actions in our Operations

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 302-1, 302-2, 302-4, 302-5 Topic 11.1 GHG emissions
UN Sustainable Development Goals	
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience Expand and Upgrade Infrastructure

To demonstrate our commitment to environmental stewardship, Petron continues to explore opportunities to reduce our environmental footprint through energy conservation and efficiency programs. Our Health, Safety, and Environment (HSE) policy is built on the principles of protecting and preserving the natural environment while promoting the health, safety, and security of all stakeholders including workers, customers, suppliers, contractors, and the general public.

In 2022, Petron's operations consumed a total of 42.38 million gigajoules (GJ) of energy, accounting for approximately 50% of our total operational spending. This energy consumption includes both renewable and non-renewable sources, with 41.46 million GJ from non-renewable sources and 7,169 GJ from renewable sources. Unfortunately, 99.98% of our energy consumption comes from non-renewable sources, primarily fossil fuels.

Within our non-renewable energy consumption, the Refinery accounts for 99.82% of the total, while the remaining usage comes from vehicles, electricity, and fuel-burning equipment such as generator sets and fire pumps. The Refinery, which is comprised of our Petron Bataan Refinery and PP Plant, also accounts for 86.6% of the total electricity consumption. Despite our reliance on non-renewable sources, Petron remains committed to finding innovative ways to reduce our environmental impact and move towards a more sustainable future.

Energy consumption within the organization

Energy	2022
Total energy consumption from non-renewable sources	41,463,853.5 GJ
Total energy consumption from renewable sources	7,169.1 GJ
Electricity sold	262,824.8 GJ
Total energy consumption within the organization (includes 840,100 GJ from flare gas burned)	42,376,468.4 GJ

We recognize the significant impact of our operations' energy consumption on the environment, and we have taken steps to reduce this consumption and promote energy conservation. Through our efforts, we were able to achieve a total energy reduction of 28,275 gigajoules (GJ) in 2022. This calculation was based on the difference in energy consumption before and after the implementation of our projects.

Amount of reductions in energy consumption achieved as a direct result of conservation and efficiency initiatives

Energy	2022
Fuel	27,782 GJ
Electricity	493 GJ
Total	**28,275 GJ**

To continuously reduce energy utilization and GHG emissions, Petron implements a variety of programs aimed at conserving energy through heat recovery. Energy available from hot process streams are being used to preheat feed to furnaces while hot flue gases from furnaces are being used to generate steam or heat up combustion air for more efficient operation of furnaces.

Additionally, the Refinery is shifting to more energy-efficient LED lighting technology and renewable solar energy for post lamps and buildings, while similar programs are implemented in our terminals and service stations. Beyond operational programs, Petron also implements energy conservation initiatives in non-plant facilities such as offices, admin buildings, and housing complexes, which include turning off lights and air conditioners during off-hours.

Petron also participates in the annual Earth Hour event organized by the World Wildlife Fund, having done so for the past 10 years, as part of its commitment to environmental sustainability.

To reduce our electricity use at the terminals, Petron is installing solar panels and solar-powered lamps in some of our terminals and service stations. These efforts have increased the use of renewable materials and reduced our reliance on traditional electricity sources.

From 2014 to 2022, Petron has made significant strides in energy conservation and efficiency, saving a total of 652,076.87 GJ of energy. Key projects that contributed to these savings include the installation of a Flare Gas Recovery Unit and the optimization of steam utilization in process units. Additionally, the latest co-generation facility is expected to further contribute to higher energy efficiency of the Refinery.

Furthermore, Petron's Desalination Plant uses waste heat from excess exhaust Low Pressure Steam from steam turbine-driven equipment allowing more efficient use of energy. Additionally, the new co-generation facility employs technology that allow a more efficient production of steam and power. The very high-pressure steam is used to generate power while the exhaust high pressure steam and medium pressure steam are used for the steam requirements of the Refinery. With another two (2) trains of co-generation facility coming on-line, we will be able to further reduce the utilization of old and less efficient TPP boilers. It is in this sense that Petron continues to explore innovative ways to reduce energy consumption and promote sustainability while maintaining efficient operations.

In 1999, Petron began its venture into petrochemicals by installing a Catalytic Reformer Unit and Mixed Xylene Plant. This allowed Petron to produce mixed xylene and lead-free gasoline. In 2008, Petron expanded its petrochemical production by installing Fluidized Catalytic Cracker (FCC) No. 1 and Benzene-Toluene-Xylene (BTX) facilities. This enabled Petron to produce three new petrochemical products: propylene, benzene, and toluene. Additionally, the revamp of the existing CCR unit increased mixed xylene production. In 2014, Petron installed its second FCC facility as part of the Refinery Master Plan 2 (RMP-2) project. This project allowed Petron to convert all of its fuel oil production to petrochemicals, gasoline, and diesel. By shifting to petrochemicals, Petron was able to reduce the GHG intensity of the Refinery output. This is because fuel oil has the highest GHG intensity at 3 kg/Li, whereas propylene has zero GHG, and gasoline and diesel have GHG intensities of 2.3 and 2.7, respectively.

In addition to these projects, we have been setting annual reduction targets in power consumption at our terminals as part of our commitment to improving our environmental management system and achieving a higher rating in our Terminal EcoWatch Program. To ensure the continuity of our energy conservation and efficiency efforts, we have certified Energy Managers under the ASEAN Energy Management Scheme and the Department of Energy (DOE). These managers are instrumental in formulating policies and programs that promote energy conservation and efficiency throughout our operations.

Water and Effluents: Ensuring Water Security for All

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 303-1, 303-2, 303-3, 303-4, 303-5 Topic 11.6 Water and Effluents
UN Sustainable Development Goals	6 CLEAN WATER AND SANITATION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience Expand and Upgrade Infrastructure Promote Human and Social Development

We acknowledge that water is a crucial shared resource that sustains our operations and the lives of our neighboring communities. As water is considered a fundamental human right according to the United Nations Sustainable Development Goals, we prioritize identifying, monitoring, and assessing our water-related impacts. We aim to strengthen our water conservation initiatives to improve the quality of life in the areas where we operate. Effective water management not only benefits our stakeholders but also enhances our operational efficiency, enabling us to deliver greater value.

At Petron, we have consistently prioritized responsible water management practices throughout the years. Our efforts have been reinforced by our parent company San Miguel Corporation through its "Water for All Program," which seeks to reduce water consumption by 50% by 2025 through the use of non-scarce sources. We are proud to say that Petron has contributed significantly to achieving this goal. In 2022, we reduced our scarce water consumption by 19.39% compared to our 2016 baseline, saving 2,082,244.25 m^3 of scarce water for the year. Our total accumulated water savings since 2016 amount to 17.38 million m^3, which is equivalent to the monthly consumption of over 579,000 households. We monitor our performance and establish annual water reduction targets through our company-wide Ecowatch Program across our terminals. As a result, we have attained 68% reduction in 2022, which already surpasses our 2025 targets.

To further contribute to reducing our water consumption, we implemented Project CODy in our Refinery in 2010. After completing our major expansion programs in 2016, we reinforced the project, which aims to identify all waste streams, characterize their quality, and find opportunities to reduce, reuse, or recycle wastewater. Through this project, we were able to implement various initiatives, such as reusing stripped sour water, reducing condensable blowdown, and lowering wastewater from crude desalter. In 2022, our Refinery successfully reused a total of 605,009 m^3 of wastewater, equivalent to around 11.2% of the total treated water discharged from our treatment facilities.

Furthermore, we established rainwater harvesting and wastewater treatment facilities in our terminals to further support our commitment to responsible water management. These initiatives demonstrate our continuous efforts to identify and implement innovative solutions to minimize our water-related impacts while improving the efficiency of our operations.

Ten of our terminals have implemented waterless fuel-receiving facilities to date, which eliminates the use of seawater to push residual fuel in pipelines. Launched in 2019, this has prevented the use of up to 10,000 m^3 of seawater per year. By doing so, we have also eliminated the generation of oily waste and sludge which is classified as hazardous waste, and avoided the construction of wastewater treatment facilities needed to treat the oily wastewater generated from water pushing.

Given the water-intensive nature of our industry, we recognize the importance of reducing our dependence on groundwater sources and preventing potential harm to these resources such as over extraction, saltwater intrusion, and ground subsidence. To achieve this, we have implemented proactive measures such as utilizing seawater and installing a desalination plant. Our desalination plant provides us with the equivalent of 21% of our total freshwater requirement. It directly sources salt water from the sea and processes this into consumable water to prevent groundwater depletion and saltwater intrusion. In 2022, we utilized 2,830,185 m^3 of desalinated water, higher compared to the 1,956,835 m^3 used in 2021. The plant also makes use of the waste heat from the low-pressure steam from the Refinery, contributing significantly to energy efficiency efforts. These alternatives were chosen based on the results of a groundwater resource study conducted by our Refinery. We also identified the areas of our operations that experience water stress, water scarcity, or absolute scarcity, based on the Philippine Water Supply and Sanitation Plan 2019-2030 of the National Economic and Development Authority and findings from San Miguel's Bulk Water Company. By implementing these measures, we are able to reduce our impact on groundwater resources and ensure sustainable water management practices in our operations.

Water withdrawal

In terms of our water usage, majority of our water withdrawal (92.27%) comes from seawater, a non-scarce water source, while 7.36% comes from groundwater. For wastewater, 99.88% is discharged into seawater, with the balance going to surface water such as rivers.

WATER WITHDRAWAL FROM ALL AREAS (in megaliters)							
Surface water	Groundwater	Seawater	Produced water	Third-party water	Total	Breakdown of total water withdrawal in megaliters according to:	
						Freshwater	Other Water
4.34	10,497.77	131,622.16		500.04	**142,641.31**	11,019.61	131,622.16

Rainwater = 16.99

Our primary source of water in operations is seawater, which accounts for 99.96% of our total seawater withdrawal. The primary use of seawater is for cooling, while the Refinery uses a desalination plant to process seawater into soft water for steam generation. This has reduced our dependence on groundwater as a water source. In 2022, 28.7% of the water used in our operations came from alternative sources, including desalinated seawater and recycled wastewater at our Refinery, and rainwater harvested at most of our terminals. This initiative helps mitigate the impact of water scarcity in Bataan, where the Refinery is located, which is anticipated to worsen due to climate change.

Our Refinery accounts for 99.20% of our total groundwater withdrawal. However, following the mandate of R.A. No. 9275 or The Philippine Clean Water Act to reduce groundwater consumption, we are constantly exploring new ways to recycle wastewater and collect rainwater to minimize our usage of scarce water sources.

Furthermore, in 2023, we have allocated PHP 10 million to install rainwater harvesting facilities in 123 service stations across the country, with a modest capacity of 1,600 L per station. This will help us to further reduce our reliance on scarce water sources and minimize our environmental impact.

Petron operates in places that are experiencing different levels of water scarcity. In fact, 99.96% of the total water volume withdrawn comes from these areas. Additionally, only 7.68% of the water withdrawn in water-stressed areas comes from freshwater sources. We will continue to reduce our use of freshwater sources in stressed areas and enhance our ability to adapt to changing environmental conditions as we move towards climate change resilience.

WATER WITHDRAWAL FROM ALL AREAS with water stress							TOTAL	Breakdown of total water withdrawal in megaliters according to:	
Year	Unit of measurement	Surface Water	Groundwater	Seawater	Produced Water	Third-Party Water		Freshwater	Other Water
Amount (2022)	megaliters	0	10,495,85	131,615.81	0	493.20	**142,581.58**	10,965.77	131,615.81

Water discharge

The majority of our water consumption, which amounts to 133,834.04 megaliters, is discharged into seawater, with only a small amount (155.22 megaliters) being released into surface water. Refinery accounts for 99.8% of the total wastewater discharge. In 2022, almost all (99.88%) of the treated wastewater was discharged to coastal surface water.

We continue to implement water conservation programs such as Project CODy in our Refinery and waterless receiving in most terminals to minimize wastewater generation. For terminals where process wastewater cannot be avoided, we have invested PHP 49.58 million for the upgrading of our treatment facilities to comply with the effluent standards of the Clean Water Act. For service stations that generate process wastewater, Petron has likewise allocated PHP 60 million for new and upgrading of treatment facilities. The company ensures that wastewater discharge from its facilities is consistently compliant with standards.

By taking these steps, we aim to reduce our impact on the environment while still meeting the demands of our operations.

WATER DISCHARGE TO ALL AREAS (in megaliters)						
Surface water	Groundwater	Seawater	Third-party water	**Total**	Breakdown of total water withdrawal in megaliters according to:	
					Freshwater	Other Water
155.22	-	133,834.04	0.73	**133,989.99**	7,724.09	127,992.56

WATER DISCHARGE TO ALL AREAS WITH WATER STRESS (in megaliters)						
Surface water	Groundwater	Seawater	Third-party water	**Total**	Breakdown of total water withdrawal in megaliters according to:	
					Freshwater	Other Water
5,948.06	-	127,986.21	-	**133,934.27**	5,948.06	127,986.21

Water consumption

In 2022, our total water consumption from all areas of our operations was 8,651.47 megaliters. Moreover, for our areas with water stress, we have consumed a total of 8,647.46 megaliters. This is a favorable result of our consistent efforts in reducing water consumption in the areas where we operate.

Water consumption (in megaliters)	Amount
Total water consumption from all areas	8,651.47
Total water consumption from all areas with water stress	8,647.46
Change in water storage	0

FEATURE STORY
Conserving our Scarce Resources: Petron tops SMC's WATER FOR ALL project

In 2010, the Petron Bataan Refinery (PBR) initiated Project CODy through the Corporate Technical Services Group (CTSG)-Environment. This initiative aimed to establish our water footprint for us to better understand our water usage, thereby allowing us to identify opportunities for possible reuse and recycling before water treatment and disposal. By managing our water resources more effectively, we were able to achieve three important goals simultaneously. Firstly, we conserved water by minimizing and optimizing its use in our Refinery operations. Secondly, we significantly reduced our water consumption to ensure that our surrounding communities could continue to enjoy the same scarce resources. And thirdly, we realized cost savings by using less water. Our approach to water management allowed us to achieve these three objectives, contributing to the sustainability of our operations and the well-being of our surrounding communities.

In 2010, the full implementation of Project CODy resulted in system-wide savings of 14.4% in water usage, equivalent to PHP 9.7 million in savings for Petron due to reduced water extraction from our own deep wells. Our initiatives also included reducing raw water consumption in the condensable blowdown drum, an essential part of our Refinery's gas relieving system, and routing stripped water to the Flue Gas Desulfurizer (FGD) unit. As a result, we were able to decommission two deep wells that provided groundwater for our Refinery operations, helping to enhance the water supply in our fenceline barangays Alangan and Lamao. The completion of Petron's Refinery Master Plan 2 (RMP-2) in 2014, along with new water reduction programs, helped lower the Refinery's Water Consumption Index by 44%, from 1.74 to 0.97. This brought the water footprint of the Refinery within the lower range of typical US refineries. A component of the RMP-2 project is the construction of the desalination plant which supplies around 23% (equivalent to 2,830,185 m^3) of the total water demand of the Refinery in 2022 and helps us prevent groundwater depletion and saltwater intrusion.

Project CODy is an innovative environmental initiative that has enabled Petron to join forces with San Miguel Corporation's WATER FOR ALL program, making it even more significant. The program was launched in 2016 with the aim of drastically cutting down the conglomerate's group-wide water consumption by half by 2025. According to SMC President and CEO Ramon S. Ang, *"Water is a precious resource, not just for San Miguel, but for all of us. We have continued to work towards improving water use efficiency across all our businesses as we confront the challenges of water scarcity."* By participating in this program, Petron is actively contributing to this worthy cause and doing its part to conserve water resources for a sustainable future.

Specifically, the SMC WATER FOR ALL program seeks to reduce our scarce water consumption by 20% in 2020 and by 50% in 2025 compared to the 2016 baseline level, by implementing water consumption reduction programs and promoting the use of infinite water sources. The program is crucial in mitigating the effects of our operations on water resources and ensures their sustainable use for future generations. The SMC Water for All program is a testament to our commitment to sustainability and responsible resource management.

Petron willingly accepted the SMC WATER FOR ALL challenge, despite already having initiatives in place to optimize our water consumption. However, we were determined to not only meet but exceed its target. The Refinery went a step further by implementing low-investment programs to further reduce our domestic water consumption. These initiatives include the installation of Dual Flush Toilets, Sink Urinals, and aerators in faucets. Additionally, the Refinery aims to reuse rejects from Continuous Electrodeionization (CEDI) for non-critical water applications and from Drinking Water Purification for Laboratory wash area for cleaning sample bottles by 2024. PBR is also exploring several relatively more capital-intensive projects, such as Wastewater Effluent Recycling and Rainwater Harvesting for firewater and raw water applications to help meet the WATER FOR ALL target. Petron's Terminal Operations nationwide have also been doing their part in improving their respective water footprints. They have invested in rainwater collectors to harvest rainfall for use in non-critical functions such as toilet water, housekeeping, and maintenance of plants. By implementing these initiatives, Petron is taking an active role in conserving water resources for a sustainable future.

Petron's collective efforts to reduce water consumption have already led to significant progress towards meeting our reduction goals. From 2016 to 2022, we saved a total of 17.28 million m^3 of water, the highest among all SMC subsidiaries. Our Terminal Operations rainwater harvesting program alone collected 58 million liters of rainwater since 2017, equivalent to the monthly consumption of 1,945 households. For 2022, we used around 17,000 m^3 of rainwater for non-essential chores, equivalent to the monthly consumption of 567 households. The Refinery also played a significant role in SMC's group-wide water savings in terms of absolute volume, generating 1.97 million m^3 in 2022, more than any other SMC facility. Before the pandemic hit in 2019, we had already exceeded our 2020 target reduction with a 27.09% reduction in scarce water consumption. This achievement was largely due to the Seawater Desalination Facility of the Refinery and our Operations Group's leadership in rainwater harvesting, with rainwater collectors installed in all terminals nationwide. In recognition of our efforts, 23 Petron terminals nationwide were among SMC's top 48 facilities in the WATER FOR ALL project in 2022 with 15.29 million m^3 of water saved or 55.8% of the conglomerate's total accumulated water savings. While we had already implemented many low-investment programs, we also plan to invest in more capital-intensive projects, such as Wastewater Effluent Recycling and Rainwater Harvesting, to help achieve the WATER FOR ALL target. Our commitment to conserving water resources remains steadfast, and we will continue to take action towards creating a sustainable future for all.

Despite the challenges posed by the COVID-19 pandemic, including the temporary shutdown of our Refinery, we are proud to report that Petron had the highest total volume accumulated water savings among all of San Miguel Corporation's operating units until 2022. Overall, Petron has contributed 51.31% to the total volume of scarce water conserved since 2017, and 32.12% of the total volume of scarce water conserved in 2022.

As the largest oil company and sole refiner in the country, we recognize the importance of practicing sustainability and reducing our water consumption to address the increasing demand and threat to groundwater supply and availability. Therefore, we are committed to implementing programs to reduce water consumption and explore alternative resources beyond groundwater. Regardless of our size or scale, we will continue to build on these initiatives to promote positive change and to become better stewards of the environment.

Biodiversity: Protecting Our Common Home

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 304-1, 304-2, 304-3, 304-4 Topic 11.4 Biodiversity
UN Sustainable Development Goals	
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience

Maintaining the diversity of living organisms is essential for preserving different species of plants and animals, as well as their natural habitats. At Petron, we are committed to caring for communities and the environment, which includes preserving biodiversity. We recognize that the diversity of life directly affects the livelihoods of people in a particular region, and therefore plays a crucial role in reducing poverty and promoting sustainable growth.

To achieve this, we pledge to adopt business practices that prioritize environmental preservation, as we understand that this will benefit both our company and its stakeholders in the long term.

We acknowledge that our activities have a considerable impact on the environment, and we believe that meeting environmental regulations alone is not enough. To reduce the potential impact of our offshore activities, such as product receiving and marine vessel transport, Petron uses oil spill booms to contain possible spills. Additionally, we prioritize preventive maintenance to ensure the integrity of our pier facility and receiving pipelines.

Given that Petron's operations occur in sensitive areas like coastlines, we are committed to investing in activities that help restore natural habitats in these regions. This includes initiatives like reforestation projects, which includes mangrove and tree planting, as well as coastal cleanup programs. By undertaking these measures, we aim to minimize our ecological footprint and contribute to the long-term preservation of the environment.

As part of our commitment to preserving biodiversity, we have set a goal to reforest 48 hectares of upland sites by planting at least 120,000 mangroves in coordination with the DENR throughout 2023. Additionally, we plan to partner with academic institutions to measure the carbon sequestration rates of each adopted site and establish baseline data by conducting an initial species inventory.

To ensure our progress is recognized officially, we are looking to partner with the University f the Philippines at Los Baños-College of Forestry and Natural Resources to have carbon sequestration rate calculations measured and certified annually. These measurements will be validated by the DENR through its Ecosystems Research and Development Bureau.

We recognize that it is essential to support local communities and will complement our reforestation efforts with activities to provide supplemental livelihood options to host communities. By doing so, we hope to not only preserve biodiversity but also promote sustainable development and empower local communities.

Petron is committed to upholding our HSE Policy, which guides our compliance with government regulations aimed at promoting health and safety, protecting the environment, and implementing effective procedures. Towards this end, we prioritize adequate resources, leadership support, coordination with local government units (LGUs), and stakeholder involvement. Our ultimate goal is to continually improve our performance by setting and meeting targets for excellence. We continuously develop strategies to enhance our business practices and ensure that our efforts are directed towards areas of greatest need. This approach enables us to remain focused on our objectives and maintain our high standards.

Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

Name of Protected Area	Activity	Location
Tañon Strait Protected Seascape	Sales Office	Amlan, Negros Oriental
Saranggani Bay Protected Seascape	Fuel Terminal	Bawing, General Santos City

Petron is dedicated to promoting biodiversity and reducing the negative impact of our operations on the natural environment. As some of our operational sites are situated near protected areas, we take extra precautions to ensure that we preserve the local biodiversity. For instance, our sales office in the town of Amlan in Negros Oriental is located next to the Tañon Strait Protected Seascape, while our Bawing Terminal in General Santos City is situated within the Sarangani Bay Protected Seascape. These locations have both been officially recognized as protected areas under the National Integrated Protected Area System Law and classified as Category V Protected Areas by the International Union for Conservation of Nature (IUCN).

Significant impacts of activities, products, and services on biodiversity

At our Bawing Terminal, we have identified pollution from the operations of marine vessels and water discharge from fuel terminal operations as our major direct impacts on biodiversity. However, we are pleased to note that there are no species affected by these impacts. The extent of the areas impacted is limited to the immediate vicinity of the terminal, and the duration of the impact is short term. Moreover, we have implemented measures to mitigate and manage these impacts, and we are confident that the impacts are reversible.

To address environmental and socio-economic issues in the protected area, Petron has developed a comprehensive ten-year rehabilitation plan for the Bawing Terminal. This plan focuses on reducing water pollution and habitat destruction, as well as promoting alternative livelihoods. We plan to review and update the plan every ten years, or sooner if necessary, to ensure that it remains effective and relevant to the changing environment and regulations.

In addition, Petron conducts ambient water quality monitoring to evaluate the impact of our terminal's operations on the water quality in Sarangani Bay. We also partner with the DENR on a mangrove reforestation program that trains program beneficiaries to maintain and protect the site. We bi-annually track propagule survival rates and prepare progress reports to monitor the project's success. Through regular monitoring and reporting, Petron is taking ownership of our environmental impact and striving for a more sustainable future.

Habitats protected or restored

Petron recognizes the need to protect and restore habitats. In 2022, we implemented protection measures on an aggregate of 2.137 hectares of land in our Tagoloan Terminal in Misamis Oriental and in our Bawing Terminal. We have also established partnerships with third parties such as LGUs, DENR, and program beneficiaries to protect or restore habitat areas outside our operations. We are proud to report that our efforts are ongoing, and we are actively monitoring the progress of each area. In Tagoloan, we have planted 150 seedlings and bamboo, while in Bawing, we have planted 3,335 mangrove seedlings. We recognize the urgency of the global call to preserve and restore our natural habitats, and we remain steadfast in our commitment to sustainable practices that balance economic progress with environmental conservation.

FEATURE STORY
From Ripples to waves: Saving the Pawikan, Building a Sustainable Environment for Bataan

Petron has been supporting the Pawikan Festival since 2007. Organized by the Bataan Provincial Tourism Council on behalf of the province, has become an annual celebration of the presence of the endangered giant sea turtles in the coastal towns of Morong and Bagac. Bataan is a significant nesting site for these sea turtles, according to the DENR's Biodiversity Management Bureau with three out of the five sea species in the country, namely the Hawksbill, Olive Ridley, and Green Turtle, using the beaches facing the West Philippine Sea as their nesting grounds.

Having been a 'resident' of Bataan for more than 50 years, Petron takes on the responsibility of preserving the area's biodiversity, particularly the pawikan. Supporting this advocacy not only protects the pawikan but also fosters sustainable development. The Pawikan Festival serves as an excellent platform to create awareness and appreciation for these ancient creatures that have been in existence for over 220 million years. Unfortunately, their eggs are deemed delicacies, and their dorsal shells are sought-after as decorations, thus making them an endangered species. Petron recognizes the significance of safeguarding the pawikan and will continue to contribute to their survival not only in Bataan but also in other areas where we are both present.

To further emphasize our support for the festival, Petron organizes the Environment Forum as among its main activities. This aims to educate residents and visitors of Morong, Bataan about the science of protecting sea turtles and their significance not only to the marine ecosystem but also to humans. Petron engages scientists and marine experts as resource speakers for the lectures together with Bantay Pawikan, the NGO tasked with managing the Pawikan Conservation Center year-round. The learning experience is then complemented by a Night Patrol, where participants can witness the nesting of an adult female green sea turtle and the hatching of eggs from the Pawikan Conservation Center. The program concludes with the symbolic release of hatchlings into the sea.

Through this effort, the Sangguniang Panlalawigan of Bataan issued Provincial Ordinance No. 30 in 2021, designating 105 hectares of nesting beaches of the marine turtle along the coastline of Morong, Bataan, as the critical habitat for pawikans. Moreover, in October 2022, the province passed Provincial Ordinance No. 24 or the Pawikan Protocol, which prescribes the rules governing marine turtle interaction during hatching and nesting and the management of threats on their nesting habitats in Bataan. As part of the province's Framework for the Sustainable Development of Coastal Areas through Integrated Coastal Management (ICM), the Pawikan Conservation Program is proposed to be institutionalized as among the steps to maintain and sustain the integrity of resources, habitats, and biodiversity of Bataan.

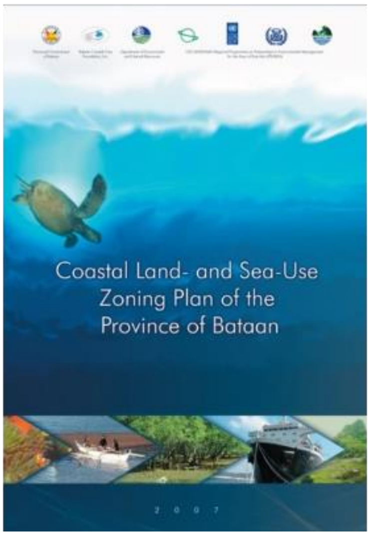
In September 2022, Petron joined forces with local officials, NGOs, and private sector organizations to participate in the One Bataan PawiCAN Conservation Alliance Network or the

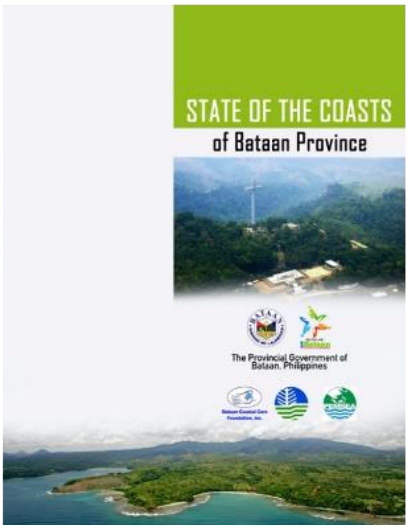
1PawiCan Program. This program hopes to institutionalize conservation and environmental protection efforts for the marine turtles found beyond the towns of Morong and Bagac, including Mariveles and Limay. As part of the initiative, each town will establish a Pawikan Conservation and Protection Group to spearhead the care of these endangered creatures.

Our involvement in the 1PawiCan Program demonstrates our commitment to environmental conservation and protection and to the sustainable development of Bataan. This collaborative effort ensures their long-term survival while preserving the natural resources of the region. Petron recognizes the significance of the pawikan not only as an endangered species but also as a symbol of a clean and healthy environment.

In 2000, we took the lead in implementing the Bataan ICM program together with the provincial government, the UNDP's Partnerships in Environmental Management for the Seas of East Asia program, the various LGUs of Bataan, and business locators in the province. As part of this program, Petron regularly participates in coastal cleanup activities, mangrove planting, and upland reforestation in different areas of the province. And through our partnership with stakeholders in the province, we have produced several important documents, including the Bataan Sustainable Development Strategy, the Bataan Coastal Land- and Sea-Use Zoning Plan, and the State of the Coast Report for the Province of Bataan. These provide a clear roadmap to help the province achieve its 2030 vision of quality growth through sustainable development.

Our support for the Pawikan Festival and conservation efforts for the pawikan is just one aspect of our commitment to the sustainable development of the entire province. Our efforts reflect our dedication to preserving the environment and contributing to the long-term prosperity of the communities we serve.





Emissions: Addressing Climate Change through our Integrated Strategies

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 302-3, 305-1, 305-2, 305-3, 305-4, 305-5, 305-6, 305-7 Topic 11.1 GHG emissions Topic 11.2 Climate adaptation, resilience, and transition Topic 11.3 Air emissions
UN Sustainable Development Goals	
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience Promote Human and Social Development

As the Philippines begins to slowly recover from the COVID-19 health crisis, it is now faced with another major global concern - climate change. The accelerating impacts of climate change in the country are severely affecting the lives, properties, and livelihoods of millions of Filipinos. The increased temperatures, sea level rise, frequency of extreme weather events, and storm surges have particularly impacted food security and safety for the population. Consequently, many companies and businesses, including ours, have begun prioritizing and addressing this global concern.

Being a key player in the oil and gas industry, we acknowledge the crucial role we have in helping the country transition towards a low-carbon economy. Therefore, we have integrated climate action strategies into our operations. For instance, we have implemented several initiatives to reduce greenhouse gas emissions, including carbon sequestration, carbon substitution, and carbon conservation.

To achieve carbon sequestration, we have carried out mangrove reforestation and tree planting activities, covering a total area of 75.14 hectares. In addition, we will explore participation in DENR's Carbon Accounting, Verification, and Certification System program to obtain carbon credits for our future reforestation projects.

In terms of carbon substitution, we will continue to look at how best to increase our use of renewable energy, such as expanding the utilization of solar power and completing our CME plant for the production of biodiesel. Furthermore, we will identify more opportunities for carbon conservation through the broader implementation of energy conservation programs. As a responsible industry leader, we are committed to taking proactive measures to mitigate climate change and contribute to a sustainable future.

To further mitigate the physical risks from climate change, we have implemented adaptation and resiliency measures. For instance, our new service stations are designed to withstand severe wind hazards and minimize material damage to the structure.

In 2018, the DOST published a report entitled "Observed Climate Trends and Projected Climate Change in the Philippines," which provides climate projections for moderate (RCP 4.5) and high (RCP 8.5) emissions scenarios up to mid-21st century (2036-2065). By utilizing these projected scenarios on temperature change, rainfall, and sea level rise, we were able to identify facilities that are vulnerable to climate change.

We have also updated our Business Continuity Plan to incorporate adaptation measures to address the identified vulnerabilities. Additionally, we utilize this information in our project planning to ensure that the necessary mitigating measures are incorporated to address any physical risks that may arise.

Direct (Scope 1) GHG emissions, Energy direct (Scope 2) GHG emissions, and Other indirect (Scope 3) GHG emissions

We use GHG and energy intensity index on a per MB crude processed since the Refinery accounts for over 99% of emissions. This is also in line with other ASEAN refineries that use /MB crude process as normalizing factor. In 2022, our Company recorded a total of 3,626,279 tons of carbon dioxide equivalent (tCO_2e) for our Scope 1 and Scope 2 GHG emissions. These are primarily due to our use of stationary fuel combustion equipment (such as boilers and generator sets) and mobile resources (such as service vehicles), which are our main sources of emissions.

Out of our Company's overall GHG emissions, which includes both Scope 1 and Scope 2 emissions, 99.70% (equivalent to 3,615,272 tCO_2e) are attributed to the operation of the Refinery, which also emits more than 99% of our Company's recorded air pollutants. It is worth noting that the biogenic CO_2 emissions from the biofuel component of fuels used amounted to 503.8 metric tons.

As we continue to prioritize our commitment to reduce our carbon footprint and contribute to mitigating climate change, we will explore various ways to further reduce our GHG emissions. Our aim is to achieve a low-carbon economy and ensure the sustainability of our operations while providing safe and reliable energy to the Philippines.

GHG Emissions	2022 (MT, CO_2e)
Gross direct (Scope 1)	3,561,286
Gross location-based energy indirect (Scope 2)	64,992
Total GHG Emissions	3,626,278
Biogenic CO_2 emissions	503.80

Similarly, it is worth noting that our Refinery is also the primary contributor to our Company's Scope 1 and Scope 2 GHG emissions at 99.94% and 86.50%, respectively. By 2023, we will be defining the coverage and boundaries for accounting GHG emissions across our organization's value chain. Baseline values for the identified Scope 3 emission sources, which may include suppliers, service providers, and customers, will be established.

Energy and GHG Emissions Intensity and GHG Emissions Reduction

Energy Intensity	2022
Refinery	497 GJ / MB Crude Processed
Co-Generation Facility	3.2 GJ / MWH
Integrated (Refinery + Co-Generation Facility)	717 GJ / MB Crude Processed
GHG Emissions Intensity	**2022**
Refinery	33.8 TCO_2e / MB Crude Processed
Co-Generation Facility	0.34 T CO_2e/MWH
Integrated (Refinery + Co-Generation Facility)	58.1 TCO_2e / MB Crude Processed

In 2022, the energy intensity of our Refinery was 497 GJ/MB, which is 10% lower than the baseline figure from 2018. This improvement can be attributed to our higher run in 2022, which has allowed us to utilize energy more efficiently. Furthermore, we commissioned the more efficient co-generation facility Phase 3 and replaced the Refinery's Thermal Power Plant with a co-generation facility. This new power plant produces both steam and power at the same time, producing very high-pressure steam at 1800 psi compared to only 600 psi from the old unit. Additionally, the co-gen facility utilizes excess energy from power production in the form of low-pressure and low-temperature steam to preheat water that is converted to steam, reducing the amount of fuel required for full conversion. This not only reduces energy utilization but also contributes to reduction in the Refinery's GHG Emission Intensity. Our GHG emissions intensity was 24.20% lower than our 2018 baseline. This places us within reach of our 2025 target to reduce emission intensity by 25%. Meanwhile, the energy and GHG emissions intensity of our co-generation facility remains the same compared to our 2018 baseline, highlighting the success of our efforts to improve energy efficiency and reduce emissions.

By 2023, we will be defining the coverage and boundaries for accounting GHG emissions across our organization's value chain. Baseline values for the identified Scope 3 emission sources, which may include suppliers, service providers, and customers, will be established.

Emissions of ozone-depleting substances (ODS) and Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions

As part of our commitment to address climate change, we are proud to state that we do not emit any ozone-depleting substance. However, we do acknowledge that significant air emissions occur during our operations, including particulate matter. In addition, we have recorded 1,564.41 metric tons (MT) of emissions (i.e., carbon monoxide) that are identified in relevant regulations.

Emissions	2022
NOx	1,886.31
SOx	9,334.00
Persistent organic pollutants (POP)	-
Volatile organic compounds (VOC)	-
Hazardous air pollutants (HAP)	-
Particulate matter (PM)	444.83
Carbon Monoxide (CO)	1,564.41

Waste: Monitoring Our Wastes

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 306-1, 306-2, 306-3, 306-4, 306-5 Topic 11.5 Waste Topic 11.8 Asset integrity and critical incident management
UN Sustainable Development Goals	
Philippine Development Plan	Accelerate Climate Action and Strengthen Disaster Resilience Promote Human and Social Development

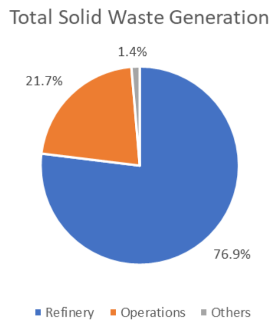
To mitigate our impact on the environment, we prioritize proper waste management in our operations. This includes implementing strategies to improve our reusing and recycling practices. We recognize that our activities have the potential to affect not only our employees but also the communities in which we operate, as well as the overall carbon footprint of the environment.

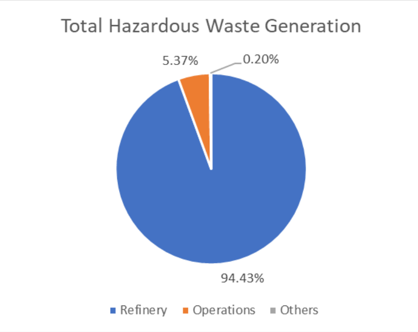
Waste generated

Petron's facilities produce both solid and hazardous wastes. In 2022, we generated a total of 11,880 MT of waste. Hazardous waste accounts for majority of the generated waste at 7,454 MT. Most of this hazardous waste comes from waste oil sludge (56.8%) and reactive chemical waste (35.8%) from our Refinery. Non-hazardous waste accounts for the remaining 4,426 MT, with spent catalysts from the Refinery making up 64% of the non-hazardous waste. Paper and cartons from lube oil manufacturing account for 17.5% of non-hazardous waste, and plastic waste from our Polypropylene Plant accounts for 9.4%. We take responsibility for ensuring proper waste management in our operations, including improving our reusing and recycling practices. We understand that our operations may have an impact not only on our employees but also on local communities and the environment.

	Hazardous Waste	Non-Hazardous Waste	Total
Waste Generated	7,454	4,426	11,880

The co-generation facility generated a significant amount of spent limestone powder, amounting to 183,699.13 MT in 2022, which is used to remove sulfur oxides from air emissions. At present, this waste is disposed of off-site in a lined disposal facility. However, the Refinery is currently looking into potential opportunities to recycle and reuse this waste, as part of our commitment to improving our waste management practices.





Petron's waste diversion efforts have resulted in the diversion of 3,509.57 MT of waste from disposal. Hazardous waste accounts for the majority at 62.7%, most of which is recycled on-site at the Refinery. Specifically, oily sludge waste is recycled as quench water in a Refinery process unit, accounting for the bulk of recycled hazardous waste at 1,866 MT. Spent catalysts and spent absorbents (223.47 MT) are also used as bed material for the co-generation facility of the Refinery. These achievements are attributed to the implementation of Project Solhaze at PBR, which characterizes hazardous waste streams and identifies opportunities to reduce waste generation. Other programs implemented include supplier buy-back of waste catalysts, dewatering of waste sludge, maximized use of phenolic caustic treatment unit to eliminate ex-situ disposal of hazardous spent caustic waste and more efficient management of hazardous wastes generated in various Refinery areas. All these efforts contributed to a 31.69% reduction in hazardous waste disposal at the Refinery in 2022 compared to 2021.

Over the past five years (2018-2022), the Refinery has been able to reuse 4,649.97 MT of hazardous waste in its process, thanks to our program and improvements in waste handling processes. As a result, we have been able to significantly reduce the cost of disposal by PHP 10.97 million for 2022 alone. Moving forward, our facilities will continue to closely monitor both solid and hazardous waste footprint, and compare our performance within and outside the company to ensure that our operations remain at the forefront of environmental responsibility and sustainability.

To minimize the use of steel drums, some of our terminals practice bulk delivery of fuel additives. However, in areas where drums are still the most cost-effective option, we send the empty drums off-site to be reconditioned or recycled at smelting plants. This is a significant contributor to the amount of hazardous waste we divert from our facilities. Furthermore, we donate clean empty drums to our host communities to serve as waste segregation bins. This initiative not only supports the local communities but also promotes proper waste management.

At our research and testing centers, we have reduced chlorinated hazardous waste by 32% through the implementation of alternative methods such as Fourier Transform Infrared Spectroscopy (FTIR) instead of chlorobenzene to determine the total base number (TBN) of fresh lube oil. We have also ensured proper segregation of product samples tested in the laboratory and initiated programs to minimize solvent-washing wastes. These efforts have reduced hazardous waste exposure to personnel, the workplace, and the environment.

Petron's lube and grease manufacturing plants collect corrugated cartons that are used as packaging for empty lube oil containers. The supplier collects these cartons for reuse as packaging for succeeding batches of lube oil container delivery. Waste propylene blocks from the polypropylene plant are also recycled off-site, with these two types of waste accounting for 59% and 31%, respectively, of the non-hazardous waste diverted from disposal. These practices support Petron's circular economy efforts.

At Petron, biodegradable waste generated from fuel terminals is composted on-site and used for landscaping and tree-planting activities. The Refinery recycles non-hazardous spent catalysts as bed material for its co-generation facility. These two programs account for the majority of on-site recycling of non-hazardous wastes.

Waste diverted from disposal

Waste diverted from disposal by recovery operation (in MT)			
	Onsite	Offsite	TOTAL
Hazardous Waste			
Preparation for reuse	0	0	0
Recycling	2.115.47	85.68	2,201.14
Other recovery operations	0	0	0
Total			2,201.14
Non-hazardous waste			
Preparation for reuse	7.60	828.24	835.84
Recycling	47.04	425.55	472.59
Other recovery operations	0.00	0.00	0.00
Total			1,308.43

Waste directed to disposal

Petron disposes of its hazardous waste off-site through DENR-accredited Hazardous Waste Treatment and Disposal (TSD) facilities. We take care to conduct due diligence on TSD facilities before engaging their services to ensure that the hazardous wastes we dispose of are treated in an environmentally acceptable manner. To ensure compliance with environmental regulations, we also conduct regular inspections of our contracted TSD facilities and verify their treatment methodology. Waste oil and sludge from the Refinery account for 84% of the hazardous waste that we dispose of off-site. This waste has a low heating value and a high water content, making it unsuitable for recycling at the Refinery. In 2022, we were able to divert a total of 1,633 MT of hazardous waste from disposal, equivalent to 10.97 million pesos in cost savings.

To minimize the amount of solid waste that we dispose of in landfills, Petron practices waste minimization, recycling, and reuse. At the Petron Bataan Refinery, we have implemented Project WRAP, which prohibits the use of non-environmentally acceptable products within the Refinery compound. With the full participation of our employees and the Peninsula School, we have significantly reduced the amount of residual waste generated within the Refinery premises. This initiative is also being implemented in our terminals.

For non-hazardous waste that cannot be recycled, Petron disposes of it in sanitary landfills. However, the Petron Bataan Refinery accounts for 93% of the non-hazardous waste that is disposed of in landfills.

Waste directed to disposal by disposal operation (in MT)			
	Onsite	Offsite	TOTAL
Hazardous Waste			
Incineration (with energy recovery)	10.12	131.21	141.33
Incineration (without energy recovery)	0.00	85.68	2,201.14
Landfilling	0.00	0	0
Other disposal operations	0.00		
Total			2,201.14
Non-hazardous waste			
Incineration (with energy recovery)	0.00	0.00	0.00
Incineration (without energy recovery)	0.00	0.00	0.00
Landfilling	0.00	3,113.87	3,113.87
Other disposal operations	0.00	4.12	4.12
Total			3,117.99

To minimize plastic packaging waste, particularly empty lube oil containers, Petron has created its EPR Program. The program is in alignment with the EPR law, which was enacted in 2022 and which requires up to 80% reduction of plastic packaging footprint by 2028. The EPR program will commence in 2023 and will focus on reducing and recovering plastic packaging waste.

Lastly, Petron facilities conduct regular coastal clean-up to support local government clean-up drives and the International Coastal Clean-up Day. In 2022, a total of 62 tons of garbage was collected nationwide.

Fueling Partnership with our Competent Workforce and Cohesive Communities

As the leading oil company in the Philippines, we understand the importance of being a responsible corporate citizen. We are committed to making a positive difference in the lives of those around us. We take various proactive steps to contribute to national concerns such as education, environment, health and human services, and livelihood, while also empowering our employees and promoting diversity and inclusion.

Our initiatives have helped drive progress and improve the quality of life for communities across the Philippines. Especially during these crucial times of recovering from a global pandemic, we believe that working collaboratively with our stakeholders and leveraging our resources can pave the way for creating a more sustainable future for everyone.

Employment: Working towards a Shared Vision

Alignment with Standards/Frameworks	
GRI Standards	GRI 2-7, 2-8, 3-3, 401-1, 401-2, 401-3 Topic 11.10 Employment practices Topic 11.11 Non-discrimination and equal opportunity
UN Sustainable Development Goals	
Philippine Development Plan	Promote Human and Social Development Increase Income-earning Ability

One of our sustainability priorities is people management. We put the utmost value in our human capital since our employees serve as one of the most valuable assets in our Company. Without them, we will not be able to thrive in business and contribute to our nation's growth by providing various employment opportunities. As we aim to become a leading employer of choice in the oil industry, we implement policies and guidelines that protect the rights of our employees and reflect their significant contributions to the success of the Company.

Starting with recruitment, we partner with management to identify the manpower requirements and utilize various recruitment channels to screen potential candidates. Eligible applicants will be invited to undergo HR and Management assessments and a pre-employment medical exam shouldered by the Company. Subsequently, fit-to-work employees will be offered a compensation package. Our quality employment standards are also in line with our competitive compensation and benefits package that exceeds government requirements. Newly hired employees will eventually attend our onboarding orientation that focuses on the following areas: employees management, technical skills, and leadership skills. They will also be given continuous training opportunities for further improvement of their skills as required by their respective job functions.

Employees

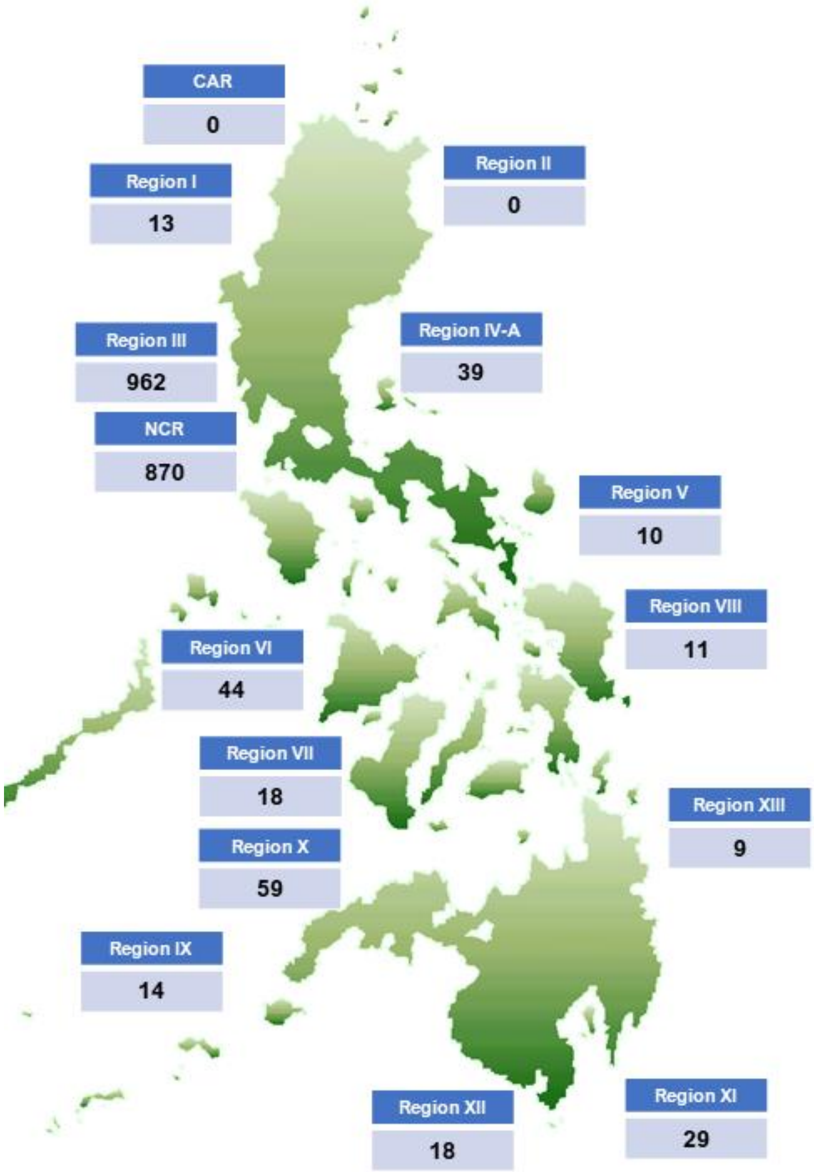
Our total number of employees is reported in headcount at the end of the reporting year.

TOTAL NUMBER OF EMPLOYEES* (PERMANENT)

BY GENDER	
Male	1,556
Female	615
Other**	0
Not disclosed	0
	2,171

***Count does not include employees of Petron subsidiaries**
***Gender as specified by the employees themselves**

BY GEOGRAPHIC DISTRIBUTION



Workers who are not employees

In 2022, we contracted with third party service providers (TPSP) a total of 3,828 employees and 39 direct hires for our security, utility, plant maintenance and repair, and janitorial staff. The number of TPSP employees varies depending on the project, with an average of around 20 employees per major plant/facility every three months.

In our Refinery, the number of TPSP employees remains relatively consistent most months as it is dependent on the turnaround time of our activities, resulting in no significant changes.

New employee hires and employee turnover

Our latest batch of talent primarily consists of rank-and-file employees who are below 30 years old and were hired from our facilities in Region III and the National Capital Region. While the majority of these new employees are male, we also place great value on gender equality in the workplace, and we have continued to recruit a significant number of female employees for our operations.

On the other hand, in 2022, our employee turnover rate was at 10%, with most of the resignations coming from employees aged 30-50 years old.

CATEGORY	NO. OF NEW EMPLOYEE HIRES	RATE OF NEW EMPLOYEE HIRES (%)	NO. OF EMPLOYEE TURNOVER	RATE OF EMPLOYEE TURNOVER (%)
By Age Group				
Under 30 years old	325	85.75	105	43.57
30-50 years old	54	14.25	112	46.47
Over 50 years old	0	0	24	9.96
By Gender				
Male	241	63.59	162	67.22
Female	138	36.41	79	32.78
By Region				
I	1	0.26	1	0.42
II	0	0	0	0
III	134	35.36	71	29.46
IV-A	5	1.32	3	1.24
IV-B	0	0	0	0
V	0	0	0	0
VI	10	2.64	4	1.66
VII	12	3.17	7	2.9
VIII	4	1.06	0	0
IX	0	0	1	0.42
X	10	2.64	7	2.9
XI	1	0.26	4	1.66
XII	1	0.26	0	0
XIII	0	0	0	0
NCR	201	53.03	143	59.34
CAR	0	0	0	0

Benefits provided to full-time employees that are not provided to temporary or part-time employees

We prioritize the welfare of our employees and provide them with a competitive benefits package that helps them maintain a balanced quality of life.

▪ Life insurance	▪ Life, Accident and Corporate Travel
▪ Health care	▪ Group Health Care Plan
▪ Disability and invalidity coverage	▪ Permanent disability
▪ Parental leave	▪ Maternity, paternity, and solo parent leaves
▪ Retirement provision	▪ Retirement benefits

In recognition of the changing work conditions, we offer additional benefits to support our employees, including teleconsultation, mental health support, protective personal equipment (PPE), and free COVID-19 testing for those required to report to work.

Parental leave

We are proud to share that 96% of our employees who took parental leave were able to return to work. Furthermore, all employees who returned from their parental leave were retained at work, demonstrating our commitment to supporting our employees in fulfilling their personal responsibilities while pursuing their career paths.

Parental Leave (2022)	Male	Female
Total no. of employees that were entitled to parental leave	1,556	615
Total no. of employees that took parental leave	61	40
Total no. of employees who returned to work in the reporting period after parental leave ended	59	38
Total no. of employees who returned to work in the reporting period after parental leave ended and are still employed 12 months after returning to work	59	38
Total no. of employees due to return to work after taking parental leave	61	40

FEATURE STORY

Petron Engineering Scholareship Prgoram: ENGINEERING A BETTER FUTURE FOR THE FILIPINO YOUTH

Petron's products are crucial in fueling commerce and communities, making the Company an integral part of the country's growth and development. At the heart of Petron's business is the Petron Bataan Refinery, which has been operational for over 50 years.

To ensure sustained growth and long-term viability amidst the rapidly changing business environment, Petron has undertaken the Refinery Masterplan Phase 2 (RMP-2). This US$2-billion upgrade is the single biggest business investment in the country and puts PBR on par with the region's most advanced refineries. The RMP-2 project includes the installation of new units and the upgrading of existing ones, leading to higher refining capacity, improved fuel quality, and enhanced operational efficiency. As a result, Petron can continue to meet the increasing demand for fuel in the Philippines and remain a key player in the country's economic progress.

The Refinery also provides employment opportunities to thousands of Filipinos, particularly engineers. As Petron expands in the local oil industry, there is a growing demand for more engineers. Yet despite over 550 vacancies for engineers at PBR's peak, there have not been enough Filipino engineers to meet the requirements. The Department of Labor and Employment (DOLE) estimates that the country needs around 800,000 to 1 million skilled workers in construction, architecture, and engineering to address a labor shortage amidst the country's construction boom. The Bureau of Local Employment (BLE) anticipated this shortage as early as 2013, even before the Duterte government's "Build, Build, Build" program, which aimed to accelerate infrastructure spending and industry development. DOLE has identified engineer and construction worker occupations as in-demand and hard-to-fill until 2022 or beyond. According to PhilJobNet data from January to April 2019, there were only 2,003 nationwide vacancies for engineers and construction workers.

In contrast, about three million Filipinos work in the Middle East alone, with thousands of them being engineers and many working in the oil industry. The Philippine Overseas Employment Administration, in a World Bank Report, highlighted the negative impact of the growing exodus of Filipino scientists and engineers (from 10,000 in 1998 to about 25,000 in 2009) on the country's inclusive growth. Dr. Angel L. Lazaro III of the National Academy of Science and Technology lamented that *"our professionals are trained at great expense in the Philippines, only for other countries to benefit from them."* It is worth noting that Filipino engineers and technologists occupy responsible positions in almost every country worldwide. The lack of engineers in the Philippines hinders the country's development and prevents it from benefiting fully from its investments in education and training.

Thus, it made good business sense for Petron to cultivate its own engineers while still in school and open the gates of PBR to scholars for practical learning about the downstream oil industry. This program aligns well with Petron's sustainability and nation-building agenda and is one way for the company to give back to the country by creating career opportunities that encourage engineers to stay and contribute to the local industry instead of seeking better prospects abroad after graduation.

The Petron Engineering Scholarship Program. In 2007, the Petron Engineering Scholarship Program was established by PBR in collaboration with Bataan Peninsula State University (BPSU), the top engineering school in Bataan. It aimed to give deserving students the chance to complete their engineering studies and groom promising engineering students for employment by the Refinery, in the process developing a pool of young, world-class engineers.

The expansion of the Refinery in 2011 with the RMP-2 project created a huge need – and opportunity -- for hundreds of talented and passionate Filipino engineers to be part of the company. Petron launched the Petron Scholarship Grant and Special Recruitment Program (PSG-SRP) and turned to third to fifth-year engineering students from top engineering schools all across the country.

Petron provides full support to its engineering scholars throughout their scholarship, including financial assistance for tuition fees, monthly living allowances, and annual academic expenses. The PSG SRP grant covers all of these costs per scholar, while the Petron-BPSU Engineering Scholarship Program includes Full Tuition fee coverage, an allowance per semester, and Board Exam Assistance for each graduate. In addition to financial support, scholars can gain practical experience through on-the-job training at PBR, which familiarizes them with the company's culture and operations. This experience also deepens their understanding of the oil industry, particularly the downstream petroleum business, as they receive mentorship from Petron's seasoned engineers.

While the program is primarily a corporate social responsibility initiative, with at least 70% of slots reserved for financially disadvantaged but academically talented students, it also serves Petron's business needs by ensuring a pipeline of highly qualified engineers to fulfill the company's staffing requirements.

Making an impact. The Petron Engineering Scholarship Program initially supported nine (9) students pursuing bachelor’s degrees in mechanical and electrical engineering. In 2022, the program achieved several milestones as 21 scholars graduated and passed their licensure exams in Mechanical, Chemical, and Electrical Engineering. Thirteen graduates from Adamson University, Bataan Peninsula State University, Cebu Institute of Technology University, Central Philippine University-Iloilo, and University of San Carlos-Cebu were hired to work at the Refinery and Petron Limay Terminal in the same year.

Since the program's start, 301 engineering students have become Petron scholars, with 293 graduating and 197 passing their licensure exams. Over 70% of these graduates, or 206 individuals, have been employed by Petron, with 84 graduates currently working for the company.

REFINERY ENGINEERING SCHOLARS BY HIRED PETRON IN 2022

PPP Reliability Engineer | PPP Reliability Engineer | PBR Budget & Economics Engineer | PBR Environment Engineer | PBR Process Engineer | PBR Process Design Engineer | PBR Energy Engineer | PBR Process Engineer

PBR RSFFB Shift Encinares | PBR OM&S Technician | PBR Turnaround Planner | PLT Shift Engineer | Petron Limay Terminal Technician

The benefits of the Petron Engineering Scholarship were affirmed by some of its scholars.

Mark Vincent Espinosa, a Chemical Engineering graduate from the University of Sto. Tomas, was among the first batch of Petron Engineering scholars. Since then, he has been a valuable member of the Company, where he currently serves as a Process Control Specialist at the Refinery. According to him, the Petron Engineering Scholarship program has been instrumental in supporting his family, and he has felt constant support from Petron throughout his personal and career growth journey - from being a college student, undergoing on-the-job training, taking the Board exams, to working as an employee.

For Espinosa, it is fulfilling to give back to the Company and the community. He is an active volunteer in the programs of Petron Foundation, and his work not only sustains the operations of Petron but also helps the communities it serves.

John Phillip Garcia, who graduated with a Bachelor of Science in Chemical Engineering from Mapua University, considers his scholarship with Petron as a blessing. He values the support and opportunities provided by the company, as well as the relationships he formed with his fellow scholars from different universities. As a scholar, he had the privilege of visiting Petron's sites, which provided him with valuable insights into the practical application of the concepts he learned in university. He recognizes Petron as a leading oil company in the Philippines and is grateful for the opportunity to learn from and be associated with such a prestigious organization.

Larraine Doon-Daep, a graduate of Bachelor of Science in Chemical Engineering from the University of the Philippines in Diliman, expresses her gratitude towards Petron for providing her with various opportunities through her scholarship. Despite being in a considerably male-dominated industry, Larraine is determined to showcase her capabilities as an excellent engineer. She has already experienced working as a "board woman" in the operations at the Refinery. Moreover, as a relatively young employee, Larraine has learned to adapt and work efficiently with her senior colleagues.

Despite facing challenges during their college years, these scholars have demonstrated a strong commitment and perseverance in pursuing their studies. As a result, they have become well-established and competent engineers, and are now valuable assets to the Company.

Labor/Management Relations: Building Better Workplaces Together

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 402-1 Topic 11.7 Closure and rehabilitation Topic 11.10 Employment practices
UN Sustainable Development Goals	8 DECENT WORK AND ECONOMIC GROWTH
Philippine Development Plan	Promote Human and Social Development

To ensure the long-term sustainability of our operations, we place a high value on positive labor-management relations. This involves fostering open and constructive communication with our employees and their representatives, and striving to create a workplace that is safe, fair, and respectful for everyone.

At Petron, we strongly uphold the human rights of our employees, who are encouraged to approach our HRMD team to address any work-related concerns they may have. Our policies and operational guidelines are also aligned with the labor standards set by the DOLE to ensure compliance and fairness.

To keep our employees up to date on organizational and operational changes, we use online internal communication tools and facilitate one-on-one discussions between employees and their immediate supervisors. By prioritizing positive labor-management relations, we aim to create a working environment that supports employee well-being, growth, and productivity.

To ensure that our employees have a voice in the workplace and to promote a harmonious work environment, we have implemented various measures. These include grievance mechanisms, regular labor and management meetings, and open communication channels with our employees and their unions. We also hold inter-department meetings and focus group discussions during training events and disseminate important announcements through various communication platforms such as company emails, Pethub postings, and HRMDListens e-mail. By fostering a healthy working relationship with government agencies and employee groups, we can ensure better compliance with our policies and practices, including safety, security, and environmental protocols, which ultimately leads to uninterrupted production and supply.

Minimum notice periods regarding operational changes

Our Company values the importance of providing ample notice and consultation to its employees and their representatives before implementing significant operational changes that may substantially affect them. We follow a minimum notice period of at least 16 hours for CBA-covered employees and at least seven (7) calendar days for transfer notices, in adherence to fair labor practices. The notice period and provisions for consultation and negotiation are specified in the CBA booklet for the whole term or life of the CBA.

We are committed to maintaining positive and productive labor-management relations, and we strive to engage with our employees openly and constructively as we work together to achieve our sustainability goals.

Occupational Health and Safety: Prioritizing a Healthy and Safe Workplace

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10 Topic 11.9 Occupational health and safety
UN Sustainable Development Goals	3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Philippine Development Plan	Promote Human and Social Development

Our Company is committed to maintaining a safe workplace by prioritizing the health, safety, and wellbeing of our employees, contractors, partners, and the communities we operate in. We go above and beyond mere compliance by fostering a safety culture and implementing various programs, measures, and initiatives to ensure a safe and healthy working environment.

Most importantly, we continuously reinforce our Company-wide Occupational Health and Safety (OHS) Management System to comply with the following legal requirements:

- Philippine Occupational Health and Safety Standards
- Department Order 198-18 Implementing Rules and Regulations of Republic Act No. 11058 or “An Act Strengthening Compliance with Occupational Safety and Health Standards and Providing Penalties for Violations Thereof”
- R.A. No. 9514 or Fire Code of the Philippines
- DOE’s Philippine National Standards on Petroleum
- Philippine Society of Mechanical Engineers Code
- Philippine Electrical Code
- National Oil Spill Contingency Plan
- Occupational Health and Safety Administration Standards
- National Fire Protection Association Standards
- American Petroleum Institute (API) Standards
- American National Standards Institute Standards
- International Safety Guide for Oil Tankers and Terminals

We highly value the contributions of our employees in fulfilling Petron's mission, which is why we ensure that all of our employees and workers are covered by our OHS Management System. This system has undergone both internal and external audits and certifications by third-party experts.

Furthermore, we have established a Management-Worker Health and Safety Committee, which functions under the HSE Committee. This committee serves as a platform for our employees to voice their opinions and concerns on OSH-related matters.

We also offer various comprehensive programs and initiatives for our employees that provide opportunities for OSH-related consultations. Some of these programs include:

- Health and Safety Advisories
- KamOSHtahan sa Terminal
- Townhall Meetings
- Petron Safety Council Meetings
- SMC HSE Committee Meetings
- SMC-Head Office Complex Safety Council Meetings
- HSE Coordination Meetings
- Toolbox Meetings
- Contractor Safety Meetings

Throughout the years, our Company has developed a systems-based OHS Management approach to effectively manage and eliminate potential hazards and minimize risks in the workplace. To achieve this, we use a range of programs to identify work-related hazards and assess risks. These programs include:

- Hazard Identification Risk Assessment and Control
- Oversight Safety Assessment
- Hazard and Operability Analysis Study
- Loss Prevention System (LPS)
- Behavior Based System
- Job Hazard Analysis
- Work Permit System
- Contractor Safety Management

In order to ensure the quality of these programs, we conduct activities such as:

- Oversight safety inspections conducted by the CTSG Safety of DOLE-accredited OSH Practitioners and Safety Officers
- Integrated Management System (IMS) Audit conducted by internal and external ISO accredited authors
- Multifunctional audits conducted by SMC-Corporate Technical Audit
- Government inspections conducted by DOLE, Bureau of Fire Protection, Philippine Coast Guard, and DOE.

Based on the results of our assessment, we have identified the following types of work-related injury and ill health:

Main types of work-related injury employees and workers	Main types of work-related ill health for employees and workers
○ Trips ○ Slips and falls ○ Being struck by or caught in moving machinery ○ Repetitive stress and overexertion injuries ○ Fire and explosions	○ Hearing loss ○ Skin conditions ○ Respiratory issues ○ Musculoskeletal disorders

We prioritize the protection and safety of our employees by implementing programs to eliminate hazards and minimize risks. This includes the replacement of obsolete equipment, facility designs that comply with standards, training, and the provision of PPE. We also utilize LPS and BBS tools, and establish reporting mechanisms such as LPS alert, BBS alert, near-miss reporting, and accident/incident reporting to communicate work-related hazards and hazardous situations. In case of an incident or accident, we immediately investigate it with the involvement of concerned groups and conduct a separate revalidation investigation by our Petron Safety Groups (i.e., CTSG Safety, OPS-HSSE, PBR Safety, Retail Engineering and Network Development Safety, Industrial Safety, Fleet Safety, and Marine Safety).

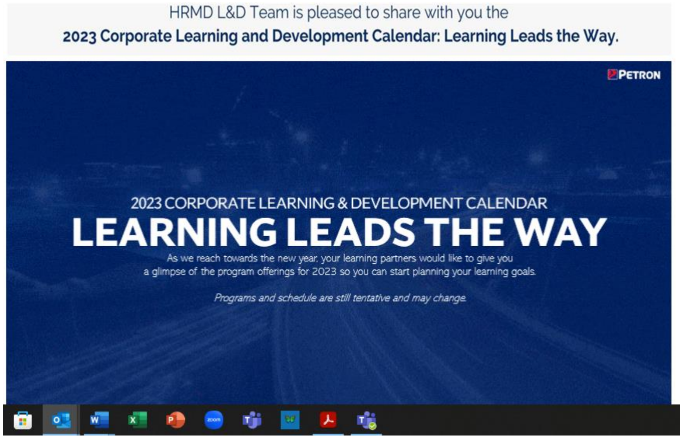
Despite our rigorous efforts, we recorded 40 work-related injuries among our employees and workers in 2022. One of these injuries was classified as high-consequence. Among the major initiatives to address this was the implementation by our Terminal Operations Division of the Loss Prevention System (LPS). This safety management system is designed to prevent or reduce losses using behavior-based tools and proven management techniques. Through this, Petron aims to further improve the over-all safety culture of the Division and eventually make it a standard practice throughout the Company. For 2022, Terminal Operations significantly reduced HSSE incidents at the terminals by 45% and fleet safety-related incidents by 31% with the use of LPS. We will continue to improve our OHS Management System to ensure the safety and wellbeing of our employees, contractors, partners, and communities.

Training and Education: Pursuing Growth and Development for our People

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 404-1, 404-2, 404-3 Topic 11.7 Closure and rehabilitation Topic 11.10 Employment practices Topic 11.11 Non-discrimination and equal opportunity
UN Sustainable Development Goals	4 QUALITY EDUCATION 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
Philippine Development Plan	Promote Human and Social Development Increase Income-earning Ability

We believe in the growth and development of our employees, who are valuable assets to our Company. They play a crucial role in delivering outstanding products and services and enable us to fulfill our commitment to customers and communities.

To support their growth, we have implemented training policies for both local and foreign training, which are communicated to all employees through training agreements.



We provide career development and performance reviews to ensure the professional development of our employees. Our training programs are continuously improved and curated to meet the evolving needs of our employees. We adhere to high standards in facilitating our programs and evaluate their effectiveness through learning checks and feedback mechanisms such as performance appraisals and individual development plans. Employee feedback is documented and used to identify areas for improvement and to ensure that we continue to enhance our training programs.

Average hours of training per year per employee and Percentage of employees receiving regular performance and career development reviews

In 2022, male employees received an average of 31 training hours, while female employees received 23 hours on average. The supervisory category received the highest amount of training. We also ensured that all employees received regular performance and career development reviews, resulting in a 100% rating.

TRAINING HOURS (BY GENDER)

CATEGORY	TOTAL NO. OF TRAINING HOURS	NO. OF EMPLOYEES	AVERAGE TRAINING HOURS
MALE	48,258	1,556	31
FEMALE	14,063	615	23

TRAINING HOURS (BY EMPLOYEE CATEGORY)

CATEGORY	TOTAL NO. OF TRAINING HOURS	NO. OF EMPLOYEES	AVERAGE TRAINING HOURS
CONTRACTORS	0	0	0
RANK AND FILE	15,060	595	31
SUPERVISORY	43,458	1,334	33
MANAGERIAL	3,803	242	16

Programs for upgrading employee skills and transition assistance programs

Together with our parent company, we offer in-house training programs and opportunities to our employees. During the new employee orientation and onboarding programs, we commit to developing employees' management, technical, and leadership skills. Employees can access these programs through the Learning and Development Calendar released yearly.

In 2022, we have also implemented the following regular transition assistance programs for continuous improvement of our employees, including mental health awareness especially coming from the pandemic situation:

- Get Petronized
- Petron 101
- Educational Reimbursement Program
- Local & Foreign Programs
- LinkedIn Learning
- *Kumusta ka? Tara Usap Tayo!* A series of mental health seminars

Local Communities: Sharing Long-term Growth with our Partners

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 413-1, 413-2 Topic 11.15 Local communities
UN Sustainable Development Goals	
Philippine Development Plan	Promote Human and Social Development

Strengthening our relationship with local communities is important to the overall growth of our Company. We encourage active collaboration with communities near our areas of operations since they are mainly affected or could be affected by our business activities. Through our regular engagement with our stakeholders, we are able to implement programs, products, and services that effectively cater to their needs.

Through our CSR arm, Petron Foundation, Inc., we strictly monitor the implementation of our nationwide programs focusing on education, environment, health and human services, livelihood, and other related initiatives that benefit the local communities. We believe that our programs have been successful because of our joint efforts with our partner schools, LGUs, and people's organizations. It is vital for us to seek the involvement of LGUs -- not merely to inform them about our contributions, but also to work hand-in-hand with them in the development and implementation of our programs.

Igniting the spirit of volunteerism, we encourage our stakeholders to participate in our activities such as Tulong Aral ng Petron and Brigada Eskwela in our Petron Schools and partner public schools. To measure our success, we establish formally agreed-upon metrics with our partners and evaluate outcomes based on our activities and outputs such as regular reports (e.g., Certificate of Enrollment, Project Summary Report). Our team from Petron Foundation also conducts regular field visits to the program sites to orient our partners and discuss our programs' strengths, issues, and concerns with the stakeholders.

Operations with local community engagement, impact assessments, and development programs

Part of our responsibility in maintaining the quality of our operations is ensuring the overall health and well-being of nearby communities where we operate. In all our operations, we have local community engagements and various development programs that are designed based on the needs of the communities. We also conduct site assessments to identify the community's socio-economic profile and general health condition as well as the potential impacts of our operations including health and safety issues and infrastructure construction. These are evaluated through hazard identification risk, assessment and control, environmental site assessment, environmental measurement to establish noise levels, air quality, and soil quality, and Hazard Operability Studies and fire scenario heat models for each project.

Operations with significant actual and potential negative impacts on local communities

We acknowledge the significant impacts of our operations on the environment in terms of the consumption and discharge of water, emission of gases, generation of waste and waste products, utilization of electricity, and the use of natural resources. Through our stringent risk management process, we mitigate and monitor potential risks in our operations and ensure strict compliance with local and global regulations and standards on health, safety, and the environment.

Our commitment to proactively monitor our environmental performance is reflected in our initiatives including the conduct of the Petron EcoWatch for all terminals nationwide, the Pollution Control Officers (PCO) training for service station personnel operations employees, and full support to SMC's Water for All program participated in by all member companies of the San Miguel group. We maintain high-quality of standards because of our compliance with environmental regulations and requirements. Our Multipartite Monitoring Team (MMT) works closely with representatives from the LGUs, DENR, and nongovernmental organizations (NGO) partners to inspect our facilities and manage our impacts, particularly on air and water quality. Moreover, all our service station managers are accredited as certified PCOs who are responsible for strictly monitoring the environmental performance of our site activities.

Across our operating facilities, we have mitigating or enhancement measures to manage and mitigate our impacts. Based on our site assessments, our operations do not have significant negative impacts on indigenous peoples. Moreover, there are no collective or individual rights that have been identified as a particular concern for the community in relation to our operations.

Operations	Mitigating or Enhancement Measures
Refinery (Limay, Bataan)	**Economic** • Expansion programs in the Refinery that generate economic activities and jobs creation **Environment** • Engagement of local contractors for maintenance, expansion projects, and environmental programs • IMS Certification

	• Installation of Environmental Protection Facilities • Use of low sulfur fuel gas for furnaces and boilers • Odor Management • Waste Segregation Performance Index (WSPI) for PBR and its contractors
Terminals (Nationwide)	**Health and Safety** • COVID-19 programs: entry and exit Safety Protocols, Health Declaration, Personnel Protection, Daily and Weekly Disinfection activities, Health Advisory, Signages and reminders, COVID-19 KamOSHtahan sa Terminal, No Contact Ship – Shore Interface Guidelines, Project CREST (Communication Report Exchanges of Ship and Terminal) • Safety training for customers and haulers/drivers: o Training for customers to supplement knowledge on safe and proper service station operation, and bulk fuel receiving procedures o Defensive driving and safe product unloading seminars for company contracted tank truck • Safety seminars, toolbox meetings, regular drills, and refresher courses for Refinery and Terminal personnel, all contractual workers, and tank truck drivers to guarantee they are exercising correct safety procedures and behavior • Fire Fighting Olympics composed of teams from the terminals and the Refinery organized by Petron's Operations HSE and Corporate Safety with LGU representatives in attendance • Basic Fire Fighting and Emergency Preparedness training for local communities • Availability of Petron firefighting and rescue equipment to support fenceline communities in case of emergencies • HazMat Brigade - trained to handle emergencies involving hazardous materials • Oil Spill Control Brigade - trained and equipped with oil skimmers and spill booms, sorbents and dispersals, speed boat and tugboat • Project TRACIE (Tracking and Recognizing All COVID-19 Infection in the workplace Environment) – use of QR code scanning technology in coordination with HRMD, HOC Admin and MISD, and implemented in the Petron Head Office and in all terminals o minimize physical contact of using manual forms, pens and long queues and shortens the processing time of accomplishing the form o ensures the immediate assessment and response of our medical personnel should the need arise • Conducted training/seminars for employees, contractors and customers as prescribed by government agencies (i.e. DOLE, BFP) and/ or required as defined by the policies of the company. These include advanced safety courses for the development of technical skills of safety personnel, such as a Mandatory 8-hr OSH Seminar among Petron employees in compliance with R.A. 11058. • Safety Evaluation of 13 third-party service providers (TPSP) for Contractor Accreditation in coordination with Procurement **Environment** • Spill containment and recovery equipment for all terminals that handle heavy grade petroleum products to help diminish the risk and environmental damage of potential spills • Member of Oil Spill Response Limited (OSRL), the world's largest international oil spill response organization • Implementation of Petron's Terminal EcoWatch that: o builds on and greatly enhances the Industrial EcoWatch Rating System or IERS, an initiative under DENR AO 2003-36 that promotes self-regulation among industries for improved environmental compliance and performance through a rating system o assesses environmental performances in terms of maturity of environmental management
Retail Operations (Nationwide)	**Environment** • Introduction of a number of industry firsts for environment-friendly products: o Early rollout of unleaded gasoline and low-sulfer diesel in the 90s

	○ Pioneered in meeting the highly stringent European fuel quality standards with Blaze 100 EURO 6, the country's first premium plus gasoline that meets both Philippines and European standards • Appointment of Pollution Control Officers for all operating facilities ○ Renewal of recognition as a Training Organization for Category A Pollution Control Officers until December 15, 2023 ○ Conduct of 40-hour PCO training and 8-hour Managing Head Training for service station dealers and qualified terminals for PCO accreditation • Testing of EURO IV fuels for sulfur, biodiesel, LPG and environmental samples by the Petron Research and Testing Center (PRTC) - examines raw materials before these are processed, as well as finished products before delivery to industrial clients or its service stations

Customer Health and Safety: Safeguarding Customer Wellbeing

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 416-1, 416-2 Topic 11.3 Air emissions
UN Sustainable Development Goals	
Philippine Development Plan	Promote Human and Social Development

The safety and well-being of our customers are of utmost importance to our Company. We are committed to providing safe and reliable products and services, and to implementing measures to ensure the health and safety of our customers.

To prioritize customer safety, we have implemented a number of measures at Petron. One key way we achieve this is through our Corporate Safety group, which advocates for a safety culture and ensures that all stakeholders and divisions participate in the Safety Council. In 2022, we continued to prioritize customer safety by implementing strict health and safety protocols at all of our retail outlets. This include frequent cleaning and sanitization of high-touch areas, as well as the use of personal protective equipment by our employees. To further support our employees, we provided training on the proper handling of fuel and other products, as well as customer service protocols. In addition to training our own employees, we also conducted regular safety training for our customers. This helps supplement their knowledge on safe and proper service station operation and bulk fuel receiving procedures. By prioritizing safety at every level of our operations, we are committed to ensuring the well-being of our customers and employees alike.

At Petron, we value our customers' feedback on health and safety concerns. To facilitate this, we offer various channels for customers to provide feedback, including our website, social media platforms, and customer service hotlines. We take every customer feedback seriously and strive to respond in a timely and effective manner. Through this commitment, we hope to build trust with our customers and demonstrate our dedication to their safety and well-being.

We gather feedback from customers nationwide by establishing various channels at Petron. These include our website, the Petron Customer Interaction Center, and Petron Talk2Us channels. Additionally, our service stations have feedback programs in place to provide customers with a convenient way to relay their feedback. At Petron, we take customer feedback seriously and work to address any concerns that are raised. Our Customer Relations Group works closely with our Corporate Affairs Department to monitor and properly address customer feedback. To ensure that concerns are properly documented and addressed, we record all feedback in a Customer Relations Management software and assign them to respective parties for resolution. Once an issue has been resolved, our feedback handlers confirm customer satisfaction through callouts and documentation.

We also worked to provide our customers with access to high-quality, sustainable products, such as biofuels, and educational materials on how to use these products safely and responsibly. We are committed to providing our customers with safe and reliable products and services, and we will continue to work to improve our customer health and safety protocols in the future. We will also work to ensure that our products are sustainable to contribute to the well-being of our communities.

Assessment of the health and safety impacts of product and service categories

We prioritize our customers' well-being by taking every necessary step to ensure that our products and services do not compromise their safety. Our commitment to this objective includes conducting safety inspections at all of our facilities. We are proud to report that during these inspections, we assessed 100% of health and safety impacts. Additionally, we continuously monitor and evaluate the health and safety risks associated with our products and services to provide our customers with the utmost safety assurance.

We prioritize the safety of our customers, employees, and the community by conducting site assessments in all of our facilities. Our Corporate Safety team provides technical assistance and conducts both virtual and on-site assessments to ensure compliance with health and safety regulations and company policies. During these assessments, we identify and address potential health and safety risks, including hazard identification, risk assessment and control, environmental site assessments, and annual environmental measurements to establish noise levels, air quality, and soil quality. Additionally, we conduct hazard operability studies and fire scenario heat models per project to ensure the highest level of safety across all aspects of our operations.

To keep our customers informed and aware of any potential risks, we provide access to material safety data sheets for all of our products through our website. At Petron, we prioritize the health and safety of our customers throughout the entire life cycle of our products, from introduction to growth and maturity, to decline. During the maturity stage, we consistently update and enhance our products to comply with the latest health and safety standards. In the decline stage, we view product development as an opportunity for innovation driven by changes in the market and technology. Our commitment to ensuring the health and safety of our customers remains unwavering. We will continue to take proactive measures to guarantee their well-being and remain dedicated to providing the highest level of safety across all aspects of our operations.

Incidents of non-compliance concerning the health and safety impacts of products and services

	Total Number of Incidents of Non-compliance for 2022		
	Refinery	Terminals	Service Stations
Incidents of non-compliance with regulations resulting in a fine or penalty	0	0	2
Incidents of non-compliance with regulations resulting in a warning	0	3	1
Incidents of non-compliance with voluntary codes	0	0	0

At Petron, we are committed to ensuring the health and safety of our customers. We strive to comply with all applicable laws and regulations regarding the health and safety impacts of our products and services. While we are dedicated to maintaining compliance, we have encountered incidents of non-compliance in the past. However, we take immediate action to rectify these situations and ensure compliance is met.

Despite our best efforts, we received Notices of Violation in 2022 from the DENR for two (2) of our service stations that involved not being able to timely renew environmental permits, and which Petron has already implemented the required remedies. Additionally, the Bureau of Fire Prevention (BFP) has issued notice to comply warnings to three of our terminals and one service station for not adequately complying with fire safety regulations. Specifically, our Pandacan and Batangas Terminals lacked Fire Alarm and Detection Systems, which we have already resolved. Meanwhile, we are currently installing the necessary firewall at our Bacolod Terminal. We take these non-compliance incidents seriously and are committed to continuously improving our safety procedures and compliance to prevent future occurrences.

While we have encountered non-compliance incidents in the past, we are proud to disclose that we have not had any incidents of non-compliance with voluntary codes. At Petron, we hold ourselves to the highest standards and ensure that all of our products and services exceed safety standards and comply with all applicable laws and regulations, as well as voluntary codes. We believe that safety is a continuous process, and we will continue to work diligently to maintain our safety standards and ensure compliance with all regulations to provide the best possible service to our customers.

Marketing and Labeling: Optimizing Fair and Responsible Marketing

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 417-1, 417-2, 417-3
UN Sustainable Development Goals	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

The Philippines is one of the Asia Pacific Economic Cooperation countries that have committed to implementing the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). As part of this commitment, we are dedicated to maintaining transparency with our customers and stakeholders by providing them with accurate and sufficient information on the potential positive and negative impacts of our products and services on economic, environmental, and social aspects.

Due to the nature of our products, adherence to correct labeling protocols is an essential part of our product responsibility. This responsibility begins from the moment each product leaves our Refinery and continues until it is received by our customers.

Over the years, we have made significant strides in demonstrating our responsibility and commitment by optimizing our integrated marketing communications to provide adequate, fair, and responsible information and labeling of our products and services. By doing so, we believe that we are empowering our customers and stakeholders to make informed decisions.

At Petron service stations, we prioritize helping our customers make informed decisions by displaying the octane number of our fuels. Additionally, we ensure that all of our service stations follow the Department of Energy's guidelines for proper fuel labeling. We take product stewardship and workplace safety seriously, which is why all of our lubricant products and greases are accurately labeled and accompanied by material safety data sheets (MSDS). The

MSDS is a critical component of our product stewardship and workplace safety practices, providing our personnel with procedures for handling and working with the materials we use, as well as important information on physical data, toxicity, health effects, first aid, reactivity, storage, disposal, and spill-handling procedures.

Petron's product quality claims for lubricants follow strict adherence to industry standards such as the API, the Society of Automotive Engineers, and the ISO for viscosity grade and service level that apply to the specific type and make of engine, equipment, or vehicle. Similarly, for greases, we adhere to the quality specifications of the National Lubricating Grease Institute. These standards ensure that our lubricants and greases are of high quality and meet the requirements of our customers.

Furthermore, all our operations concerning the manufacturing, marketing, and distribution of petroleum/petrochemical products, as well as the importation of chemical substances for operational needs are subjected to GHS labeling. For instance, our Benzene-Toluene-Xylene (BTX) plant produces benzene, which is listed as a Priority Chemical by the DENR. As a result, we must obtain a PCL Compliance Certificate from the DENR's Environmental Management Bureau and submit an annual report, MSDS, and a chemical management plan. Similarly, our additives must meet pre-manufacturing and pre-importation (PMPIN) requirements, which include submitting information on the chemical substances to be manufactured to the DENR.

To ensure compliance with DENR and existing PMPIN requirements, we are preparing GHS-compliant MSDS for petrochemical feed stocks produced at the Refinery, as well as for additives, fuels, lubricants, and other petroleum-based products. Additionally, we are converting our existing labels into GHS-compliant ones, making our Petron products suitable for international markets and potential export opportunities. Furthermore, we prioritize the safety of our employees involved in various operations by providing GHS training. This includes those involved in purchasing, forwarding, customs clearing, warehousing, emergency response, and the use of chemical substances. By ensuring compliance with GHS standards, we aim to maintain a safe and healthy workplace while meeting international market demands.

Our efforts and commitment to transparency have yielded positive results, with Petron Marketing Communications having no incidents of non-compliance with regulations such as the Advertising Standards Council Code of Ethics and the Department of Trade and Industry's Promotions for 2022.

Customer Privacy: Upholding Protection for Our Customers

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 418-1
UN Sustainable Development Goals	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We operate and transact with millions of customers. To provide timely feedback and solutions to customer inquiries, we collect certain personal information. It is our Customer Relations Group, along with our Corporate Affairs Department, that is on the front of receiving, managing, and resolving customer concerns.

With this, we ensure that our customers' information is kept private and utilized only for the reasons that are stated and disclosed to the customers. Our website also sets out our privacy statement prior to access and for which the consent of the customers for data ownership is given. We have our Data Privacy Policy (approved in May 2017 by the Board of

Directors) which sets out the principle that the Company will observe transparency, legitimate use, and proportionality in the processing of personal data. Petron has also appointed its Data Privacy Officer in charge of this matter.

From a technology standpoint, Petron has an established Information Security Management System (ISMS) containing policies, guidelines, standards and procedures that enable confidentiality, integrity and availability of data in our information systems. These policies, which are aligned with ISO 27001 and the National Institute of Science and Technology frameworks, were approved by Petron's top management in May 2020. The I.T. security function at Petron is governed by an Information Security Steering Committee, including the Data Privacy Officer as one its key members. The ISMS policies are translated into Technical I.T. and procedural internal controls, which are in place to protect sensitive customer information.

FEATURE STORY

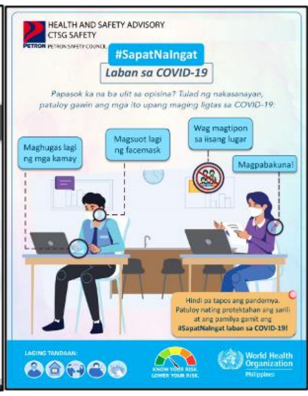
COVID and the Culture of Malasakit in Petron: A Corporation's Response to a Global Pandemic

The global pandemic has taught us a crucial lesson over the past three years - that it is no longer business as usual. As the world came to a halt, we became aware of our vulnerability to external factors beyond our control. It exposed gaps in our plans and highlighted the importance of building a business that can withstand any challenge. Amidst the daunting challenge posed by the Covid-19 pandemic, we remain steadfast in our efforts to sustain our operations. We were reminded of our core value of *malasakit*, which encompasses caring for both our internal and external communities.

Prioritizing our people. In the early stages of Covid characterized by quarantines and online meetings, we found ways to help our employees adapt to this new normal. With Petron identified as a critical industry during the pandemic, our Corporate Affairs and Human Resources worked to secure Covid-19 Inter-Agency Task Force (IATF) IDs and RapidPass accreditation to many of Petron's employees, facilitating their travel to and from Petron offices and facilities to ensure the uninterrupted supply of fuel products to the country.

We implemented work-from-home arrangements to ensure that our business operations continued without any impediments. Our I.T. group ensured that employees had access to the necessary tools and applications to function and communicate effectively while working remotely. Our HRMD also played a critical role in pandemic-related employee activities by closely monitoring cases and addressing the concerns of employees company-wide. This included providing free shuttle services for critical workers, distributing masks and alcohol when supplies were limited, installing thermal scanners, hand wash stations, floor markings, and social distancing guides in Petron offices, and overseeing regular disinfection of our main offices.

To ensure personnel awareness, we conducted regular training and disseminated relevant information. Our medical assistance extended beyond physical health to include support for mental health. In addition, we coordinated with the San Miguel Foundation to facilitate regular RT-PCR testing for approximately 1,900 employees and Third Party Service Providers based in the National Capital Region.



Our Corporate Safety group, in coordination with our HRMD, Head Office Administration, and MISD, established Project TRACIE (Tracking and Recognizing All COVID-19 Infection in the Workplace Environment) utilizing QR code scanning technology. This innovative approach minimizes physical contact by replacing manual forms, pens, and long queues, and shortens the processing time of accomplishing the form. Project TRACIE not only serves as an effective tool for contact tracing but also ensures immediate assessment and response from our medical personnel should the need arise. We have implemented this program not only in the Petron Head Office but also in all terminals.

As soon as vaccines became available in late 2020, Petron worked closely with SMC to develop vaccine-related programs to complement our Covid-testing efforts, including partnerships with LGUs. Access to vaccines for employees, their extended household members, and dependents was given the highest priority to ensure their safety and resilience against the virus. In Limay, Bataan, the location of our Petron Refinery, we participated in SMC's LIGTAS LAHAT Testing, Isolation, and Vaccination Program. This initiative included the establishment of DOH-approved COVID-19 testing and isolation facilities catering to Petron and SMC employees, third-party contractors, and residents of the town. Our Corporate Affairs Department, led by the Petron Foundation, joined the SMC LIGTAS LAHAT Core Team, which coordinated with external partners for the vaccination of Petron employees. Petron acted as the lead for the SMC Bataan Vaccination Site in partnership with the Province of Bataan, Limay LGU, and The Peninsula School, which served as the vaccination site. The vaccines administered came from both the national government, distributed to the local level, and SMC's procured vaccines.

In 2021, this SMC's LIGTAS LAHAT Testing, Isolation, and Vaccination Program we have participated in had operated for 51 days, Monday to Friday, accommodating up to 300 persons daily. Strict prevention protocols were implemented resulting in testing 838 individuals with no positive cases recorded. We also inoculated a total of 4,977 individuals (4,798 had two doses, and 164 had one dose) with SMC-sponsored vaccines, while 6,996 individuals (6,763 had two doses, and 233 had one dose) received the LGU-provided vaccines. As of end 2022, 99.5% (6,492 out of 6,521) of our nationwide workforce were fully vaccinated and 59.7% (3,874 out of 6,486) received booster shots. Four (4) employees and 17 TPSPs opted not to receive the vaccine for personal convictions. The accessibility and availability of vaccines to our employees, contractors, town residents, and their dependents significantly contributed to a decrease in the cases of COVID-19 in the community. Furthermore, the efficiency of the LIGTAS LAHAT implementation ensured no vaccines were wasted.

In 2022, Petron implemented surveillance antigen testing in 26 locations nationwide, with a total of 22,560 employees tested. In September of the same year, Petron initiated a Booster Vaccination Program for our employees in partnership with the Bataan Provincial Health Office at the PBR Visitors Center. This program administered the 1st and 2nd booster shots of Pfizer vaccine to 71 qualified vaccinated employees, both organic and TPSP. Alongside this program, we also established a Self-Administered Rapid Antigen Surveillance Testing program in 2022 to monitor the health and safety of our onsite employees and contractors. This included a standardized process for self-administered antigen testing, scheduling, medical assistance, security, sanitation, waste management, and guidelines. Our efforts culminated in testing 8,912 individuals, including PBR and PPP organic and active contractors, as well as Petron Limay Terminal and SL Pan-Asia personnel.

Through these programs, we continue to mitigate the spread of COVID-19 by providing booster shots to all our employees and their families, while also offering RT-PCR testing to those in need. We now have more tools and resources at our disposal compared to 2020, but we remain vigilant in our efforts to see the end of COVID-19.

Caring for our communities. Petron has always prioritized caring for our communities, and we were among the first to respond to appeals for support during the pandemic. Through the generosity of our Petron Value Card holders, we raised over a million pesos to purchase critical Personal Protective Equipment (PPE) for Covid-19 referral hospitals in the NCR. We also donated P2.0-M worth of Petron fuel cards to medical workers and transportation companies to ensure their mobility, and to help ferry locally-stranded individuals back to their homes. We provided canned goods to our host communities and stakeholders affected by the Enhanced Community Quarantine nationwide, and our employees even raised personal funds to provide food packs to drivers and utility personnel in Petron offices nationwide. Additionally, our Petron Foundation donated isopropyl alcohol to personnel in Petron service stations.

To further assist the public, we utilized Treats convenience stores in select Petron service stations to make San Miguel Food products available at discounted prices for communities that were restricted by lockdowns. We are committed to continuing our efforts to support our communities in any way we can, and we remain vigilant in ensuring the safety and well-being of all.


We provided financial support to more than 1,300 Tulong Aral ng Petron (TAP) scholars across all academic levels who had to adjust to studying from home. Petron employees from all over the Philippines, as well as those from Petron Malaysia and our office in Singapore, contributed by donating a portion of their salaries during the 2020 Christmas season. This enabled the Petron Foundation to purchase tablets for TAP senior high school scholars in Mindanao to aid their online learning. In addition, the Petron Foundation supported the "Ready for School 2022" campaign of the Philippine Business for Social Progress (PBSP). Specifically, we donated to five schools in areas near Petron's Head Office and terminals in the cities of Mandaluyong, Pasay, Cebu, and Davao. Our donation provided students and teachers with alcohol, disinfectants, and face masks when they resumed face-to-face classes in August. As part of the school supplies distributed to TAP scholars for the 2022-2023 school year, the Petron Foundation also included hygiene kits containing alcohol and face masks.

To date, we still require Covid-19 testing for all employees and guests. Additionally, wearing face masks remains mandatory in all Petron facilities nationwide. Although we have more resources and instruments than we did in 2020, it is still necessary for us to work together to overcome the pandemic for good. As we promote our culture of *malasakit* and strive to create a brighter future, we are committed to improving our existing resources, enhancing people's access to opportunities and public services, and rebuilding better from the impact of this global health crisis.

Fueling Transparency in our Business Model: Our Economic Approach and Governance Practices

Petron recognizes the crucial role of economic growth and good governance in creating a better future for all. As a steadfast ally of the Filipino people in nation-building, we strive to contribute to sustainable economic development through transparent governance of our operations and business practices. We understand our role in contributing to the country's economic growth and development, particularly in providing reliable energy and fuel products that power industries and transport, as well as supporting local businesses and communities through our supply chain. We believe that by demonstrating our commitment to responsible business conduct and ethical practices, we can inspire confidence among our stakeholders and contribute to the country's economic growth and development.

Economic Performance: Creating Long-term Economic Value and Opportunities

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 201-1, 201-2, 201-3, 201-4 Topic 11.2 Climate adaptation, resilience, and transition Topic 11.14 Economic impacts Topic 11.21 Payments to governments
UN Sustainable Development Goals	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 13 CLIMATE ACTION
Philippine Development Plan	Ensure Macroeconomic Stability and Expand Inclusive and Innovative Finance

Our company's primary focus is refining crude oil and distributing the refined petroleum products to a range of industrial end-users, service stations, LPG dealerships, sales centers, and other retail outlets. We also serve as a supplier of jet fuel at major airports for both international and domestic carriers. To expand our presence in the regional market, we export petrochemicals, and other non-fuel products to countries and regions in the Asia-Pacific region.

Direct economic value generated and distributed

2022 ECONOMIC PERFORMANCE	AMOUNT (in Million PHP)
I. Direct economic value generated:	
Total Revenue	860,056
II. Economic value distributed:	849,448
Operating costs	776,205
Employee wages and benefits	5,422
Payments to providers of capital	17,855
Payments to government	49,843
Community investments	123
III. Economic value retained	10,608

**The amount may not be representative of the economic value retained as community investments and portion of payments to the government are part of the operating costs, and the VAT paid to the government is not part of the revenue and of the operating cost.*

Financial implications and other risks and opportunities due to climate change

However, amidst the economic value we generate, there are also risks for our business operations. We have identified the following risks: Physical Risks, like natural calamities such as typhoons and earthquakes, that can result in damage to facilities and disruption in our operations; Financial Risks, through changes in government regulations on fuels or oil markets like pricing, taxation, and business practices, that can lead to potential financial losses, and; Climate-related developments, like the shift to renewables, can affect our operations as there may be reduced demand and sales as the call for renewable energy increases. These risks could also result in reduced margins and increased expenses. Nonetheless, we always ensure that our facilities are prepared for calamities and have insurance for protection against risks posed by climate change.

Defined benefit plan obligations and other retirement plans

We contribute to SSS, Pag-ibig, and Philhealth to provide our employees with retirement benefits upon their separation from the company. Furthermore, we have a Savings Plan in place that allows employees to contribute a portion of their salaries, which the Company matches. These contributions form a part of their retirement benefits. These employee benefits serve as a retention tool and provide financial assistance for employees' daily needs. They also offer the opportunity for employees to plan for their future retirement.

As a significant contributor to economic development, we acknowledge our responsibility to provide and increase economic opportunities for both our employees and the communities in which we operate. In line with this, we prioritize sustainability by fostering strategic partnerships and improving our products, services, and processes. We are dedicated to creating long-term economic value and mutual benefits for both our company and the communities we serve. We recognize the influence our business has on various regions in the country and remain steadfast in our commitment to delivering sustainable development.

Market Presence: Enhancing Inclusive Economic Growth

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 202-1, 202-2 Topic 11.11 Non-discrimination and equal opportunity Topic 11.14 Economic impacts
UN Sustainable Development Goals	
Philippine Development Plan	Ensure Macroeconomic Stability and Expand Inclusive and Innovative Finance Increase Income-earning Ability

Through our nationwide operations, we have created employment opportunities across the country and help make Filipino lives better. At the same time, the valuable skills, and talent of our employees contributes to the fulfillment of our Company's goals with their deep understanding of the local needs and environment of the areas where we operate.

As we expand the reach of our operations, we adopt localized strategic hiring in our facilities unless a highly specialized qualification and certain expertise from outside the locality is necessary. Nevertheless, as we value continuous professional development, we provide regular training to all our employees to strengthen their technical skills and adapt to the evolving needs of our Company and stakeholders.

We continuously nurture our relationship with our partner communities by generating jobs that provide a competitive salary and benefits package above the minimum wage. We provide equal employment opportunities, through which we are able to employ highly qualified employees that contribute to the productivity of our operations and business activities. We have also partnered with some local schools helping us attract graduates and candidates more easily.

Indirect Economic Impacts: Creating a Lasting Impact

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 203-1, 203-2 Topic 11.14 Economic impacts
UN Sustainable Development Goals	1 NO POVERTY 3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES
Philippine Development Plan	Expand and Upgrade Infrastructure Promote Human and Social Development Increase Income-earning Ability

As a leading oil refining and marketing company in the Philippines, we at Petron are committed to being a force for positive change amidst significant socio-economic changes in the country. Our goal is to deliver on our promise of hope by working closely with partner communities, national and local government agencies, private entities, and employee volunteers to promote equitable and inclusive economic development.

Significant indirect economic impacts

Our presence in the community has generally had a positive impact on the local economy. In addition to paying taxes to both national and local governments, we create job opportunities for engineers and other skilled professionals. Our operations also have a ripple effect on the economy, as construction projects and other activities require various supplies, attracting entrepreneurs to set up businesses in support of our facilities. Furthermore, our service station network expansion stimulates economic growth in local communities by providing safe access to fuel and other products. This means even the most remote areas can benefit from our efforts to contribute to the nation's economic development.

Petron Foundation Inc. (PFI) is our CSR arm, with a mission to create a positive impact on the communities in the areas of education, environment, health, human services, and livelihood. We are dedicated to extending our reach beyond our core business to promote the progress of the communities where we operate.

In line with our commitment, we will continue our efforts to fuel H.O.P.E. (Helping the Filipino Children and Youth Overcome Poverty through Education). Education is essential for progress and empowerment, and we are proud to support programs and initiatives that enable children and youth to reach their full potential. Our work is making a meaningful difference in the lives of the communities we serve, and we will continue to contribute to a brighter future for Filipinos.

Infrastructure investments and services supported

To emphasize our commitment to social and human development, Petron aligns itself with the key development strategies of the Philippine Development Plan 2023-2028 and the global SDGs set in the 2030 Agenda for Sustainable Development. We prioritize infrastructure investments and services that contribute to the well-being of the Filipino people, with a focus on education. Since 2002, we have been constructing 2-3 classroom buildings to add to public schools with overcrowded student populations, resulting in the establishment of 108 Petron Schools, equivalent to 258 classrooms, and benefiting over 100,000 students nationwide as of December 2022.

These school facilities support the Department of Education's efforts to address the shortage of classrooms, as outlined in its Basic Education Agenda of **MATATAG: Bansang Makabata, Batang Makabansa**. Petron's contribution aligns with one of the agenda's four critical components, which is to "accelerate delivery of basic education facilities and services" to promote and improve lifelong learning and education. At Petron, we believe that investing in education is a crucial step towards uplifting the quality of life for Filipinos, and we will continue to support initiatives that enable children and youth to reach their full potential.

To further support the healthcare needs of Filipinos, Petron has established Petron Community Clinics in host communities of our major facilities. These specialized healthcare facilities offer a range of services, including x-ray, laboratory, ECG, and ultrasound, and closely collaborate with nearby government health centers. Currently, three clinics are in operation in Pandacan, Manila; Limay, Bataan; and Rosario, Cavite, serving the health needs of their respective communities. To date, over 6,000 residents have benefited from the services offered by these clinics. We remain committed to supporting healthcare services in the country, particularly during these challenging times of COVID-19 pandemic recovery.

To fulfill our commitment to supporting the development of the Philippines, particularly the province of Bataan and the municipality of Limay, Petron donated P56-M in April 2022 to fund the construction of a six-meter-long reinforced concrete pedestrian overpass along the By-Pass Road project which stretches from Barangay Luz to Barangay San Francisco de Asis and traverses the high traffic Roman Superhighway. This vital project supports road safety and the convenience of the local community, especially as the Roman Superhighway has high traffic volume.

Our dedication to empowering underprivileged Bataeños is longstanding, and we have achieved successful outcomes through partnerships with the LGU and local organizations. Petron has been operating the only remaining Refinery in Limay for over half a century, and we recognize our responsibility to contribute to the town's progress. Our programs prioritize education, environment, health, entrepreneurship, and livelihood, in line with our larger goal of promoting sustainable development for both the town and the entire province of Bataan.

Anti-corruption and Anti-competitive Behavior: Maintaining our Integrity

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 205-1, 205-2, 205-3, 206-1 Topic 11.19 Anti-competitive behavior Topic 11.20 Anti-corruption
UN Sustainable Development Goals	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Philippine Development Plan	Promote Competition and Improve Regulatory Efficiency Practice Good Governance and Improve Bureaucratic Efficiency

We are dedicated to being a reliable partner to our customers and strive to develop innovative products and services that add value to their lives. Additionally, we are committed to maintaining consistent quality in our customer experience, and we place a strong emphasis on upholding integrity in all aspects of our operations.

To ensure that our business operates with the highest ethical standards, we strictly adhere to our Code of Conduct and Ethical Business Policy, which was approved by the Board of Directors of the Company in May 2018. This policy sets forth guidelines for all directors, officers, and employees to act fairly, honestly, and in good faith, while conducting business in an uncompromising ethical, and proper manner.

Our Code of Conduct and Ethical Business Policy expressly prohibits corruption and bribery. To further our commitment to fighting corruption, we integrate anti-corruption discussions into various training and orientation programs. Our leadership training seminars, employee orientation programs, and corporate governance seminars, which are mandatory for directors and key officers, all include discussions on anti-corruption measures. We also have a module on corruption in our labor relations seminars. We extend our efforts to our customers by encouraging them to follow similar ethical standards when dealing with contractual obligations related to anti-corruption practices. We have also implemented an anti-corruption policy with appropriate disciplinary actions outlined in our Company Rules and Regulations on Discipline.

Furthermore, we are committed to avoiding any form of anti-competitive behavior practices, including collusion with potential competitors. Our Code of Conduct and Ethical Business Policy expressly requires the Company to compete fairly and ethically within the framework of competition laws.

We are dedicated to being a reliable partner to our customers and strive to develop innovative products and services that add value to their lives. Additionally, we are committed to maintaining consistent quality in our customer experience, and we place a strong emphasis on upholding integrity in all aspects of our operations.

We believe that upholding good governance is a cornerstone principle at Petron, and our efforts in this area were recently recognized at the ASEAN Corporate Governance Scorecard (ACGS) Arrow Awards of the Institute of Corporate Directors. In January 2023, we received two Golden Arrows in recognition of our excellence in corporate governance.

Tax: Driving Change with Transparent Tax Disclosures (3-3, 207-1, 207-2, 207-3, 207-4)

Alignment with Standards/Frameworks	
GRI Standards	GRI 3-3, 207-1, 207-2, 207-3, 207-4 Topic 11.21 Payments to governments
UN Sustainable Development Goals	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Philippine Development Plan	Ensure Macroeconomic Stability and Expand Inclusive and Innovative Finance

Taxes are vital sources of government revenue that ensure the promotion of sustainable development and the provision of better infrastructure, health, education, jobs, and social protection for the people. As part of Petron's commitment to nation-building, we recognize the importance of delivering our duty to the people and countries where we operate, by providing economic contributions to the government through tax remittances.

With the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) law (R.A. No. 10963), excise taxes for the importation and sale of petroleum products were gradually increased in the Philippines over the past few years. This tax increase, however, did not hinder Petron from accelerating much-needed government revenues and providing consumers with quality products. In fact, last March 2022, we were awarded by the Bureau of Customs (BOC) as one of the country's top taxpayers and importers for 2021.

In addition, Petron has consistently shown its support for the Philippine government's Fuel Marking Program, aimed at tackling tax leakages resulting from fuel smuggling. Petron holds the record for marking the largest volume of fuel out of the 28 oil firms participating in the program, accounting for 8.69 billion liters or 24 percent of the total 35.92 billion liters marked since September 2019. As a leader in the industry, Petron is committed to surpassing expectations of good tax practices and will continue to support laws and regulations that promote tax transparency, economic growth, and responsible industry practices.

Country-by-country reporting*

As part of our commitment to transparency and accountability, our sustainability report for this year includes a comprehensive tax disclosure that covers our resident entities in the Philippines, Malaysia, Bermuda, Singapore, British Virgin Islands, Mauritius, and Hong Kong. We believe that our tax disclosure is a testament to our commitment to sustainable business practices and responsible corporate citizenship. By providing this information, we aim to build trust and credibility with our stakeholders and contribute to the development of the communities where we operate.

*Please see table on page 108

Our Governance (2-9, 2-10)

Our journey towards a sustainable future is further deepened because of the commitment of our Board and management. Guided by our vision and mission, we carry out our responsibility as a leading local industry leader to effectively manage our risks and implement our strategies to fulfill our sustainability commitment. Through this, we remain resilient and agile to adapt to our ever-changing business environment.

Governance structure and composition

The highest governance body in our Company is the Board of Directors composed of 15 directors, three (3) of whom our independent directors (IDs). The only executive directors of the Company are Messrs. Ramon S. Ang and Lubin B. Nepomuceno who hold the positions of President and CEO and General Manager, respectively.

NAME	AGE	NATIONALITY	POSITION	YEAR APPOINTED AS DIRECTOR
RAMON S. ANG	69	Filipino	President and CEO	2009
LUBIN B. NEPOMUCENO	71	Filipino	Director and General Manager	2013
RON W. HADDOCK	82	American	Director	2008
ESTELITO P. MENDOZA*	93	Filipino	Director	2009
AURORA T. CALDERON	68	Filipino	Director	2010
MIRZAN MAHATHIR	64	Malaysian	Director	2010
FRANCIS H. JARDELEZA	73	Filipino	Director	2020
VIRGILIO S. JACINTO	66	Filipino	Director	2010
NELLY F. VILLAFUERTE	86	Filipino	Director	2011
JOSE P. DE JESUS	88	Filipino	Director	2014
HORACIO C. RAMOS	77	Filipino	Director	2018
JOHN PAUL L. ANG	43	Filipino	Director	2021
ARTEMIO V. PANGANIBAN	86	Filipino	Independent Director	2010
MARGARITO B. TEVES	79	Filipino	Independent Director	2014
RICARDO C. MARQUEZ	62	Filipino	Independent Director	2022

*Previously served as Director of the Company from 1974 to 1986

The Board has the following committees:

Executive Committee

- generally exercises the powers of the Board when the latter is not in session;
- composed of three (3) regular members with two (2) alternate who shall sit in the event that any one of the regular members is unable to attend the meeting.

Corporate Governance Committee

- tasked to assist the Board in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices;
- have at least three (3) IDs as members, including the Chairperson.

Audit Committee

- oversees Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework; ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets;
- composed of at least three (3) appropriately qualified non-executive directors, the majority of whom shall be IDs; the Chairperson also an ID and shall not the Chairperson of the Board of Directors or of any other Board Committee.

Risk Oversight Committee

- responsible for the oversight of the enterprise risk management system of the Corporation to ensure its functionality and effectiveness;
- composed of at least three (3) members, the majority of whom shall be IDs; the Chairperson also an ID and shall not the Chairperson of the Board of Directors or of any other Board Committee.

Related Party Transaction Committee

- tasked with reviewing all material related party transactions of the Company;
- composed of at least three (3) non-executive directors, two (2) of whom shall be IDs; Chairperson also an ID.

Apart from his/her fees approved by the Board and ratified by the stockholders, an ID has no business or relationship with the Company , which could, or could reasonably be perceived to, materially interfere with the exercise of his/her independent judgment in carrying out his/her responsibilities as a director.

Nomination and selection of the highest governance body

To have an optimum board composition, we consider a balanced representation based on age, skills, industry experience, background, gender, competence and knowledge, and other distinctions between and among directors. The profiles of the directors who were elected in 2022, which describe their educational background and business experience are available in the 2022 definitive information statement posted on our Company website.

In our selection process, the Corporate Governance Committee pre-screens and shortlists candidates nominated to become directors and ensures that director-candidates meet the following requirements:

- possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Company's business and risk profile;
- have a record of integrity and good repute;
- have sufficient time to carry out their responsibilities; and
- have the ability to promote a smooth interaction between board members.

With our systematic corporate governance, we continuously work towards accelerating our sustainability initiatives and create long-term value for our Company and stakeholders.

Our Risk Management

ENTERPRISE RISK MANAGEMENT

The Company further enhanced its risk management process and practices with the appointment of the Chief Risk Officer of the Company who supervises the entire enterprise risk management process of the Company and spearheads the development, implementation, and continuous improvement of the Company's enterprise risk management processes and documentation. He also heads the Risk Management Group, the dedicated risk management group of the Company tasked to lead the enterprise risk management program of the Company. All Division Heads are designated risk owners of all risks emanating from their respective groups and each group is represented in the Risk Management Committee, the working group which was formed to become the conduit in cascading risk management efforts of Management to all employees and in receiving any feedback from them.

The primary objective in implementing the Company's enterprise risk management system is to develop the Company's sustained ability to make apt and timely decisions on risks that may adversely impact the attainment of company objectives and goals through proper governance and the integration of risk management in the daily operations and performance of the entire organization. Identified risks are analyzed, evaluated and treated and major risks are regularly reported and raised to top management level for continuous monitoring and decision-making. The risk management process is integrated in the yearly business planning of the all major divisions and departments, with the resulting annual business plan formulated being presented to the Board for approval.

The Company generally classifies its risks into four (4) major categories, namely: financial risks, strategic risks, operational risks, and compliance risks. Major risks are those which have been evaluated to have a high likelihood of occurrence with a huge magnitude of consequences if left unaddressed.

I. Major Risks

The following were the major risks identified for 2022:

(1) Foreign Exchange Risk arises from the difference in the denomination of majority of the revenues of the Company in Philippine peso against the bulk of the costs of the Company denominated in US dollars. Exposure to foreign exchange arises from US dollar sales and purchases of crude oil and petroleum products, foreign-denominated liabilities and equity securities, exports, and mark-to-market of trade receivables. Changes in exchange rates between currencies impact the business financial performance or financial position of the Company.

(2) Liquidity Risk is the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due. This may arise from the funding gap brought about by the mismatch in the timing and the amount between cash collections and disbursements of the Company.

(3) Interest Rate Risk is the risk associated with increasing cost of borrowing due to changing interest rates for loans. The Company's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Company to cash flow interest rate risk.

(4) Profit Margin Risk is the risk associated with continuing volatility in crude oil and petroleum product prices that may impact operating profits. This has been on fluctuating trends brought about primarily by the impact of the Covid 19 pandemic, the Russian – Ukraine war, and other geo-political developments which resulted in continuing imbalances between the global supply and demand of crude oil and petroleum products. Volatility in prices and margins may result in significant cash flow variability which may affect the Company's cash position and working capital requirements and possibly result in higher financing expenses.

(5) Cyber Security Risk is a risk related to the loss of the confidentiality, integrity or availability of information, data, and business systems that has potential adverse impact to operations, reputation, brand, financials, or assets of Petron. These risks remain to be a potential threat with the possibility of severe consequences due to continuing proliferation of insidious operations.

(6) Substantial Disruption in Operations is a risk resulting in a slowdown or shutdown of the Petron Bataan Refinery, terminals, depots and other similar facilities caused by serious equipment failure, accidents, operating upsets, human error or natural events. The disruption can also result in personnel injury, damage to property, loss of life and even financial losses caused by shortage in supply of petroleum products or inventory build-up. This type of risk can also emanate from a disruption in crude or product supply caused by various adverse circumstances such as natural calamities, vessel incidents, terrorism, or war which can lead to a serious supply problem.

II. Management of Major Risks

The Company's management of the above major risks is discussed below.

(1) **Foreign Exchange Risks**

(a) The Company hedges its dollar-denominated liabilities using forwards and other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.

(b) Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded through an enterprise resource planning software that monitors financial transactions also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices. In addition, the Company's over-all net exposure position is monitored daily through generation of exposure reports and is regularly reviewed by Management. This allows timely awareness and response to contain losses or provide guidance for hedging strategies posed by foreign exchange exposure.

(c) The Company engages in active risk management strategies that include, among others, entering into derivative products which are hedge-effective based on currency, amount and timing of respective cash flows. The Company uses hedge accounting to reduce volatility created by the repeated adjustment of a financial instrument's value by enhancing the basis for recognizing gains and losses on hedging instruments by matching the timing of their impact to profit and loss with the hedged exposure.

(d) Should prevailing market conditions favor securing Philippine peso-denominated loans to refinance US dollar-denominated liabilities, the Company converts its US dollar-denominated loans to minimize foreign currency exposure of the Company.

(2) **Liquidity Risks**

(a) The Company constantly monitors and manages its liquidity position, liquidity gaps or surplus daily. Stand-by credit facilities from on-shore and off-shore banks are available to ensure availability of funds when necessary.

(b) The Company explores alternative working capital sources to augment its funding base including, among others, debt and capital markets fund raisings.

(c) The Company adopts banking facilities solutions to liquidity/cash management that aid the Company in shortening and optimizing its cash cycle through bills purchase facilities, cash sweeping arrangements, and other collection solutions.

(d) The Company ensures prudent management of cash through regular monitoring and evaluation of the Company's financial performance, continuous planning of the uses of cash, and cautious spending for programs and capital projects.

(e) The Company maintains access to credit lines to ensure funding for working capital requirements, especially in times of increasing prices.

(3) **Interest Rates Risks**

(a) The Company manages its interest rate costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charges by other credit banks.

(b) The Company's investment policy is to maintain adequate yield to match or reduce the net interest cost from the Company's borrowings prior to deployment of funds to their intended use in operations and working capital management. The Company invests only in high-quality securities while maintaining necessary diversification to avoid concentration risk.

(c) The Company also enters derivative products under hedge accounting to partly cover its long-term floating interest rates exposure. Similarly, the Company proactively monitors the financial markets to be able to identify opportunities to lower financing cost through refinancing.

(4) **Profit Margin Risks**

(a) The Company uses margin hedging strategies to mitigate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future US dollar price of Dubai crude oil and that of a selected product manufactured from the crude. This partially locks in the refining margin of the Company.

(b) The Company engages in commodity hedging to protect crude and product inventories from potential inventory losses arising from significant drops in prices.

(c) Given the high volatility of oil markets, the Company conducts a regular assessment and recalibration of Refinery utilization considering outlook on crude and fuel prices, as well as demand, to ensure optimized operations and margins.

(d) The Company enters into long-term sales contracts for certain fuel and petrochemical products whenever these are financially attractive. Such contracts guarantee long-term revenues and a market for Refinery production.

(5) **Cyber Security Risks**

(a) Petron has a robust and functioning information technology ("IT") security management system that can address and respond to a wide range of cyber security risks. Examples of the technologies and tools employed are firewalls, encryptions, anti-virus software, network monitoring, mobile device management, and drive encryptions.

(b) Current major initiatives include conditional access on devices to enforce compliance with security policies, multi-factor authentication to protect accounts and identities, information classification labeling to prevent leakage of sensitive information, and regular user access reviews.

(c) Petron has a dedicated IT security function overseen by an IT Security Steering Committee to direct its IT security roadmap. This roadmap is aimed to deliver a strong internal control posture against cybersecurity and is periodically reviewed to ensure that Petron keeps up with evolving cybersecurity risks.

(6) **Substantial Disruption in Operations**

(a) The Company maintains insurance whose coverage includes property, marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial

All Risk policy, covers the Petron Bataan Refinery for material damages, including machinery breakdown and business interruption cover.

This operational risk is more critical to the Petron Bataan Refinery because of the impact of any disruption, where a severe incident can trigger adverse disruptive consequences all the way down to the product consumer level.

(b) The Petron Bataan Refinery, while very particular in achieving operational efficiency, uses as its primary performance index its operational availability, *i.e.,* providing the longest possible running hours. For this reason, it has long developed an asset policy program for its facilities, the main objective of which is to ensure continuous and efficient Refinery operations while regularly performing the required preventive, corrective, and turnaround maintenance works.

(c) The Petron Bataan Refinery continues to be Integrated Management System ("IMS")-certified covering ISO 9001- 2015 for Quality Management System, ISO 14001- 2015 for Environmental Management System and ISO 18001-2007 for Occupational Health and Safety Assessment Series. All ports at the Refinery and terminals are compliant with the International Ship and Port Security Code and certified by the Office of the Transport Security under the DOTC.

(d) In the case of crude supply, crude diversification continues to reduce dependence on crudes coming from the Middle East. For both crude and products, increasing storage capacity and days' inventory are also being pursued.

III. **Other Risks**

Risks which are evaluated to have low likelihood of occurrence and low cost impact, or even if the likelihood of occurrence is high but the cost impact is minimal, are considered minor or medium level risks. These are included in each Division's Risk Register which is continually monitored by the Divisions and risk levels updated as internal and external developments impact on them. Examples of such risks are manpower attrition, supply chain disruption, minor equipment failure, rising market competition, counterparty risks, project delays, IT application malfunction, and data privacy.

The Company also closely monitors regulatory risks that can expose the Company to potential material loss, financial loss or legal penalties due to non-compliance with applicable laws, regulatory requirements, and other obligations, including contractual obligations. The Company is maintaining close coordination with various government agencies and other parties to have the opportunity to respond proactively in various situations to avoid or minimize potential risk exposure.

OUR VIEW FORWARD

Throughout Petron's long history, we have built and sustained an organization that has fueled the lives of every Filipino. Through remarkable resilience, adaptability, creativity, *malasakit*, and an unwavering commitment to excellence and customer service, we are confident that Petron will succeed as a business beyond our generation, and will continue to be an integral part of nation building.

Petron has always been practicing sustainability even before the concept became a popular business terminology, and it is our commitment to sustain this and make it our way of life. We have been taking all the right steps in the course of our history, but we are committed to do more, do it better, do it more consistently, and do it as a community.

We intend to further institutionalize our sustainability philosophy and policies and embed these in all aspects of our operations. This aligns with the bigger roadmap being developed by the SMC Group to create a greater and more lasting positive impact to our communities.

We will continue to measure our performance against our Environment, Social, Governance, and Economic targets to ensure that our goals are being met, and that we truly contribute to the betterment of the lives of our stakeholders. We will also evaluate our performance against globally-recognized practices on sustainability reporting and come up with a holistic, quality report that showcases the value that Petron generates for our shareholders and stakeholders.

We will continue to be more inclusive in the understanding and application of our sustainability agenda, extending our efforts throughout our entire value chain, making sure that our commitment to excellence, quality and compassion becomes a shared value.

We will continue to innovate, adapt, and evolve, and explore technologies, tools and practices that will make our operations more efficient.

We will continue to nurture our communities and create more opportunities for them to grow as we grow. At the same time, we will remain mindful of our environmental footprint and exert greater effort to mitigate and manage our impact.

As we turn 90 years old, we continue to change for the better, push ahead with meeting the demands of our time, and be ready to address the challenges of the future. The extreme volatilities in our industry have sharpened our skills over the years. The unexpected hurdles put in our path by Covid-19 forced us to carve new pathways to weather the crisis and emerge stronger. As climate change poses heightened risks, we will take a closer look at our business more and more through the lens of sustainability as our way forward. And we look to continue undertaking this journey with you.

ANNEXES

AWARDS AND RECOGNITION

- **Golden Arrow Awards for Corporate Governance –** ASEAN Corporate Governance Scorecard (ACGS) Arrow Awards, *Institute of Corporate Directors*
- **2022 and 2021 Top Taxpayer and Importer** – *Bureau of Customs*
- **Plaques of Recognition** - 2022 Education Stakeholders Convergence and Partners' Appreciation Program, *Department of Education*

GRI CONTENT INDEX

Statement of use	Petron Corporation has reported in accordance with the GRI Standards for the period January 1, 2022 to December 31, 2022
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	GRI 11: Oil and Gas Sector 2021

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	LOCATION	ANSWER	OMISSION			GRI SECTOR STANDARD REF. NO.
				REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
General disclosures							
GRI 2: General Disclosures 2021	2-1 Organizational details	p. 10					
	2-2 Entities included in the organization’s sustainability reporting	p. 4					
	2-3 Reporting period, frequency and contact point		January 1 to December 31, 2022 Annually Publication date: April 15, 2023 Contact person: Ramon S. Ang President and CEO				
	2-4 Restatements of information		None. This is the Company's first time to report using the latest GRI Standards.				
	2-5 External assurance		The report has not been externally assured.				
	2-6 Activities, value chain and other business relationships	pp. 10-15					
	2-7 Employees	pp. 53-54					
	2-8 Workers who are not employees	p. 54					
	2-9 Governance structure and composition	pp. 83-84					
	2-10 Nomination and selection of the highest governance body	p. 84					

	2-11 Chair of the highest governance body		Mr. Ramon Ang, President and CEO of Petron, acts as the chairman in the meetings of the Board. The Company's Manual on Corporate Governance of our Company sets out the functions of the Chairman and the CEO to clearly define roles and responsibilities. In matters where the interests of the CEO and the Chairman may conflict such as those relating to directors' remuneration and the independence of the Audit Committee in reviewing the controls in the operations of the Company, we have mechanisms in place such as the power of the Board Corporate Governance Committee (headed by an ID and majority of the members of which are also IDs) to review directors' fees and the Audit Committee being headed by an ID and whose members include all the IDs of the Company.				
	2-12 Role of the highest governance body in overseeing the management of impacts		The Board of Directors is responsible for formulating the Company's vision, mission, strategic objectives, policies, and procedures that shall guide our activities, including the means to effectively monitor Management's performance. It annually approves its operating plan for the year and results of operations are reported to and approved by the Board of Directors on a quarterly basis.				
	2-13 Delegation of responsibility for managing impacts		The Board of Directors delegates its responsibility for managing the Company's impacts across its committees. The Management also formed an ESG Council in June 2022.				
	2-14 Role of the highest governance		The sustainability reporting of the Company is currently under the ESG Council. The ESG Council is tasked				

	body in sustainability reporting		to identify the Company's ESG strategy and roadmap aligned with established reporting standards and SMC's direction and to prepare the Company's first sustainability report using the latest GRI international standards. The Company has been issuing its sustainability report following the Securities and Exchange Commission (SEC) format since 2019.				
	2-15 Conflicts of interest		Petron Corporation Definitive Information Statement on SEC Form 20-IS for the 2023 annual stockholders' meeting containing disclosures on related party transactions and the review and approval by the Board Related Party Transactions Committee of material related party transactions for 2022 (pages 75 and 76): [SECURITIES AND EXCHANGE COMMISSION (petron.com)]				
	2-16 Communication of critical concerns		The Board of Directors approved in 2013 the Company's Whistle-blowing Policy which provides the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and our subsidiaries. The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy. The Company also has an Internal Audit Department that assists in matters relating to risk management,				

			control and governance process. Its head directly reports to the Board Audit Committee.				
	2-17 Collective knowledge of the highest governance body		The Company annually engage service providers to conduct training to its directors and executive officers. In September 2022, the training for the directors and key officers of the Company included the topic on developments in climate risk and decarbonization conducted by SGV. Also in September 2022, the directors and officers were given an internal briefing on sustainability by the ESG Committee. The directors and executive officers also had an orientation training by UA&P Center for Social Responsibility in October 2022.				
	2-18 Evaluation of the performance of the highest governance body		The directors accomplished their annual evaluation of their performance for 2022, with the coverage and results of the evaluation reported in the Petron Corporation Definitive Information Statement on SEC Form 20-IS for the 2023 annual stockholders' meeting (pages 94 and 95): SECURITIES AND EXCHANGE COMMISSION (petron.com)				
	2-19 Remuneration policies		Our management sets the remuneration of senior executives at a level that will help attract and retain executives with the qualifications and experience needed for the success of the Company and that will be commensurate to the services that they render to the Company. We				

			provide each executive officer with a general description of executives' benefits in addition to the statutory benefits and other benefits enjoyed by all employees such as medical and life insurance, vacation, sick and emergency leaves, and a savings plan program.				
	2-20 Process to determine remuneration		The Corporate Governance Committee reviews the remuneration of directors to ensure that salaries and other remuneration of officers are set at level adequate to attract and retain directors with the qualifications and experience needed to manage the Corporation successfully. The Company provides each non-executive directors with reasonable per diem for each board and board committee meeting attended in addition to monthly fees and monthly fuel allowances. Directors are not paid retirement benefits. The fees of the directors for 2022 were endorsed by the Corporate Governance Committee and approved by the Board on March 8, 2022 upon the finding of the Corporate Governance Committee that such fees were reasonable and commensurate to the services to the rendered. The matter was ratified by the stockholders at 2022 the Annual Stockholders' Meeting held on May 16, 2022, with the following vote (as disclosed in the minutes of the 2022 Annual Stockholders' Meeting: 03-08-22-Petron-Amended-Matters-Approved-at-the-March-8-2022-Board-Meeting..pdf				

			https://www.petron.com/wp-content/uploads/2022/05/2022-ASM-Minutes-05202022-mhbrev-Draft-for-Website-Posting.pdf				
	2-21 Annual total compensation ratio			Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees Ratio of the percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees	Confidentiality constraints	Our Company considers many factors in fixing the salaries of employees. The requested information on the ratio on the pay difference may be taken out of context when the determinants used by Petron in setting the salaries are not considered by the person receiving the ratio information.	
	2-22 Statement on sustainable development strategy	pp. 5-8; pp. 15-18					
	2-23 Policy commitments	p. 17-19					
	2-24 Embedding policy commitments		The compliance with the Company's policies is an obligation of all directors, officers and employees. Policies have their respective procedures for implementation (including the obligation of employees, directors, and officers to report suspected violations) and a failure to comply with such policies may subject the concerned employee to disciplinary measures (including counseling, reprimand, suspension and/or termination, in addition to any				

			civil or criminal liability under existing laws and regulations).				
	2-25 Processes to remediate negative impacts		We comply with DOLE requirements and procedures during mediation meetings (if any). We also provide necessary documentation requested by other party, if needed. We have a Monthly Labor Management Council and Grievance Machinery in place to remediate negative impacts.				
	2-26 Mechanisms for seeking advice and raising concerns		We have direct coordination or inquiry with HR personnel handling Labor Relations through e-mail, phone call, SMS, and online platforms.				
	2-27 Compliance with laws and regulations		There has been no significant instance of non-compliance with laws and regulations in 2022, with significance being based on a material effect on the operations and/or financial condition of the Company.				
	2-28 Membership associations		Petroleum Institute of the Philippines Philippine Business for Social Progress People Management Association of the Philippines Employers Confederation of the Philippines				
	2-29 Approach to stakeholder engagement	pp. 21-22					
	2-30 Collective bargaining agreements		We have 25% of total employees covered by collective bargaining agreements. We have active company policies in place for our employees not covered by collective bargaining agreements.				
Material topics							
GRI 3: Material Topics 2021	3-1 Process to determine material topics	pp. 21-22					
	3-2 List of material topics	pp. 23					

Economic Performance							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 76-77					11.2.1 11.14.1 11.21.1
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	p. 77-78					11.14.2 11.21.2
	201-2 Financial implications and other risks and opportunities due to climate change	pp. 77-78					11.2.2
	201-3 Defined benefit plan obligations and other retirement plans	p. 78-79					
	201-4 Financial assistance received from government		In 2022, Petron has received tax relief and credits from the government that amounts to PHP 226 million from duties, VAT, and excise tax exemption.				11.21.3
Market Presence							
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 78					11.11.1 11.14.1
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage		Currently at Petron, we do not have a standard level wage by gender (daily) for all the employees including Rank and File (RF). Our employees are monthly-paid and no one is categorized as a minimum wage earner. Salary ranges are in place based on current salary structure of the company.				
	202-2 Proportion of senior management hired from the local community		As of 2022, we do not have senior management at significant locations of operation that are hired from the local community.				11.11.2 11.14.3
Indirect Economic Impacts							
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 79					11.14.1

GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	p. 79-80					11.14.4
	203-2 Significant indirect economic impacts	p. 79					11.14.5
Anti-corruption							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 80-81					11.20.1
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption		The Internal Audit and/or the relevant department will conduct an investigation where corruption is suspected. And where warranted, disciplinary or other measures against culpable employees will be undertaken, which may lead to the termination of employment.				11.20.2
	205-2 Communication and training about anti-corruption policies and procedures	p. 80					11.20.3
	205-3 Confirmed incidents of corruption and actions taken	p. 80					11.20.4
Anti-competitive Behavior							
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 80-81					11.19.1
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		There are no legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the Company has been identified as a participant.	Main outcomes of completed legal actions, including any decisions or judgements	Not applicable	The Company is not and has not been subject of the described legal actions.	11.19.2
Tax							
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 81-82					11.21.1
GRI 207: Tax 2019	207-1 Approach to tax	p. 81-82					11.21.4
	207-2 Tax governance, control, and risk management	p. 81-82					11.21.5

	207-3 Stakeholder engagement and management of concerns related to tax	p. 82					11.21.6
	207-4 Country-by-country reporting	pp. 82, 106					11.21.7
Materials							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 32-34					
GRI 301: Materials 2016	301-1 Materials used by weight or volume	p. 30					
	301-2 Recycled input materials used	p. 31					
	301-3 Reclaimed products and their packaging materials	p. 31					
Energy							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 32-34					11.1.1
GRI 302: Energy 2016	302-1 Energy consumption within the organization	p. 32					11.1.2
	302-2 Energy consumption outside of the organization		The energy consumption outside of our Company will be monitored in succeeding reporting periods based on measured fuel consumption and electric meter readings.				11.1.3
	302-3 Energy intensity	p. 46-47					11.1.4
	302-4 Reduction of energy consumption	p. 32-24					
	302-5 Reductions in energy requirements of products and services		As we continue to strengthen our energy conservation and efficiency initiatives, we will monitor the reductions in energy requirements of our sold products and services in the succeeding reporting periods.				
Water and Effluents							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp.34-37					11.6.1
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	pp.40-43					11.6.2

	303-2 Management of water discharge-related impacts	pp.40-43					11.6.3
	303-3 Water withdrawal	pp.41-42					11.6.4
	303-4 Water discharge	pp. 42-43					11.6.5
	303-5 Water consumption	p. 43					11.6.6
Biodiversity							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 47-49					11.4.1
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	p. 48					11.4.2
	304-2 Significant impacts of activities, products and services on biodiversity	p. 48					11.4.3
	304-3 Habitats protected or restored	p. 49					11.4.4
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations		No IUCN Red List species and national conservation list species were affected by our operations.				11.4.5
Emissions							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 45-47					11.1.1 11.2.1 11.3.1
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	p. 46					11.1.5
	305-2 Energy indirect (Scope 2) GHG emissions	p. 46					11.1.6
	305-3 Other indirect (Scope 3) GHG emissions	p. 46					11.1.7

	305-4 GHG emissions intensity	pp. 46-47					11.1.8
	305-5 Reduction of GHG emissions	p. 46-47					11.2.3
	305-6 Emissions of ozone-depleting substances (ODS)	p. 47					
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	p. 47					11.3.2
Waste							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 48-51					11.5.1 11.8.1
GRI 306: Effluents and Waste 2016	306-3 Significant spills		While we recognize critical incidents as a potential risk due to the nature of our industry, we have an Enterprise-Wide Risk Management Framework in place that addresses such risks to ensure business continuity while at the same time preventing, if not mitigating, negative impacts to our community and the public in general. For preventive and preparatory measures, we have in place contingency plans, standard operating procedures and manuals, regular drills and practices, regular inspections by authorities, insurers, consultants, and constant training of personnel. We are focused on the risk of oil spills, a risk that is considered to have a high impact, but a low probability of occurrence. For 2022, we have no incidents of significant oil spills.				11.8.2
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	pp. 48-51					11.5.2

	306-2 Management of significant waste-related impacts	pp. 48-51					11.5.3
	306-3 Waste generated	pp. 48-50					11.5.4
	306-4 Waste diverted from disposal	pp. 50					11.5.5
	306-5 Waste directed to disposal	p. 50-51					11.5.6
Employment							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 52-55					11.10.1 11.11.1
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	p. 54-55					11.10.2
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 55					11.10.3
	401-3 Parental leave	p. 55					11.10.4 11.11.3
Labor/Management Relations							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 60-61					11.7.1 11.10.1
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	p. 71					11.7.2 11.10.5
Occupational Health and Safety							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 61-63					11.9.1
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	pp. 61-63					11.9.2
	403-2 Hazard identification, risk assessment, and incident investigation	pp. 61-63					11.9.3
	403-3 Occupational health services	pp. 61-63					11.9.4
	403-4 Worker participation, consultation, and	pp. 61-63					11.9.5

	communication on occupational health and safety						
	403-5 Worker training on occupational health and safety	pp. 61-63					11.9.6
	403-6 Promotion of worker health	pp. 61-63					11.9.7
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pp. 61-63					11.9.8
	403-8 Workers covered by an occupational health and safety management system	pp. 61-63					11.9.9
	403-9 Work-related injuries	pp. 61-63					11.9.10
	403-10 Work-related ill health	pp. 61-63					11.9.11
Training and Education							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 63-65					11.7.1 11.10.1 11.11.1
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	p. 64					11.10.6 11.11.4
	404-2 Programs for upgrading employee skills and transition assistance programs	p. 64-65					11.7.3 11.10.7
	404-3 Percentage of employees receiving regular performance and career development reviews	p. 64					
Local Communities							
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 65-68					11.15.1

GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	p. 66				11.15.2
	413-2 Operations with significant actual and potential negative impacts on local communities	pp. 66				11.15.3
Customer Health and Safety						
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 68-69				11.3.1
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	p. 69				11.3.3
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	p. 69-70				
Marketing and Labeling						
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 70-72				
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	pp. 70-71				
	417-2 Incidents of non-compliance concerning product and service information and labeling	p. 71				
	417-3 Incidents of non-compliance concerning marketing communications	p. 71				
Customer Privacy						
GRI 3: Material Topics 2021	3-3 Management of material topics	pp. 71-72				

GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data		There are no substantiated complaints received concerning breaches of customer privacy and losses of customer data during the reporting period.				

Topics in the applicable GRI Sector Standards determined as not material	
TOPIC	**EXPLANATION**
GRI 11: Oil and Gas Sector	
Topic 11.12 Forced labor and modern slavery	Not applicable. Petron aims to always conduct our business responsibly and ethically. We respect international human rights principles aimed at promoting and protecting human rights, including the United Nations Declaration of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work. By embracing these international principles as well as faithfully complying with Philippine labor laws, Petron is committed to policies and practices that enrich the workplace. As a result, the Company has not had incidents related to human rights abuses, labor discrimination, child labor, and forced labor.
Topic 11.13 Freedom of association and collective bargaining	identified as material but not applicable. Petron currently has CBAs with its three labor unions in the Philippines: (1) Petron Employees Association; (2) Petron Employees Labor Union, and (3) the Bataan Refiners Union of the Philippines. It also has a structured 'Grievance Machinery' in the CBA to address any issues or concerns even as regular Labor Management Meetings between Management Representatives and Union Officers are regularly conducted.
Topic 11.16 Land and resource rights	For 2022, there were no material developments related to this topic.
Topic 11.17 Rights of indigenous peoples	Not applicable. Petron operations do not involve nor infringe on the rights of any IP community.
Topic 11.18 Conflict and security	All GRI topics are material to our stakeholders. We recognize this as a potential risk and has systems in place in all of our facilities and operations nationwide.
Topic 11.22 Public policy	All GRI topics are material to our stakeholders. But as an acknowledged industry leader, Petron recognizes the value of our public policy positions on issues relevant to our business. Thus, we communicate our views constantly to government officials, providing business solutions to social and environmental concerns. We aid legislations, policies, and voluntary agreements, particularly those that relate to the oil industry, and how economic and social growth can be advanced through our sector.

TAX
Country-by-Country Reporting (207-4)

Data (2022)	List all tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes.	i. Names of the resident entities;	ii. Primary activities of the organization;	iii. Number of employees, and the basis of calculation of this number;	iv. Revenues from third-party sales;	v. Revenues from intra-group transactions with other tax jurisdictions;	vi. Profit/loss before tax;	vii. Tangible assets other than cash and cash equivalents;	viii. Corporate income tax paid on a cash basis;	ix. Corporate income tax accrued on profit/loss;	x. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax.
	Philippines	Petron Corporation	Refining and marketing/distribution of petroleum products	2,278 regulars; 42 contractuals; 15 consultants	415,217	18,060	3,434	215,806	18	898	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting
	Bermuda	Overseas Ventures Insurance Corporation Ltd.	Non-life insurance and re-insurance	0	10	-	168	-	-	-	
	Philippines	Petron Freeport Corporation	Wholesale or retail and operation of service stations	13 regulars	893	330	47	110	8	7	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting
	Singapore	Petron Singapore Trading Pte. Ltd.	Procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum products; crude vessel chartering and commodity risk management	22 regulars	135,748	359,233	1,652	1	73	86	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting
	Philippines	Petron Marketing Corporation	Wholesale or retail and operation of service stations	0	4	-	3	0	1	1	
	Philippines	New Ventures Realty Corporation and Subsidiaries	Acquiring real estate and derive income from its sale or lease	0	2	-	178	6,213	3	41	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting
	British Virgin Islands	Petron Global Limited	Holding company	0	-	-	-	-	-	-	
	Malaysia	Petron Finance (Labuan) Limited	Holding company	0	-	-	(0)	-	-	-	
	Mauritius	Petron Oil and Gas Mauritius Ltd	Holding company	0	(0)	1,149	1,149	-	-	-	
	Malaysia	Petron Oil and Gas International Sdn Bhd. and Subsidiaries	Refining and marketing/distribution of petroleum products	659 regulars; 13 contractuals; 14 consultants	308,177	-	4,916	48,813	888	380	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting
	Hong Kong	Petrochemical Asia (HK) Limited and Subsidiaries	Holding company	0	2	-	(124)	2,027	-	0	
	Philippines	Mema Holdings, Inc. and Subsidiaries	Fuel hauling and logistics services	95 regulars	5	-	27	583	17	17	due to permanent and temporary differences with respect to different methods of accounting for financial reporting and tax accounting

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